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Bertie Felstead

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Business this week

Aug 2nd 2001
From The Economist print edition

Falling fast

America's economy grew by a sluggish annual rate of 0.7% in the second quarter. Consumer spending advanced 2.1% but business investment crumbled, falling by 13.6%, its biggest fall for nearly 20 years. The National Association of Purchasing Management index slid again in July, signalling that manufacturing activity had declined. Big companies' profits fell by 67% in the second quarter compared with a year before, the largest fall for more than a decade.

See article: Still scraping the bottom

Japan's economic problems worsened. Industrial production fell by 8.7% in June compared with a year ago. Consumer spending fell by 3.3% in the same period. Unemployment in June stayed at a record high of 4.9%. The Nikkei 225 stockmarket share average hit its lowest point for 16 years.

See article: The voters give Koizumi a chance. Will the LDP?

Russia showed capitalism's old hands the way. The economics ministry claimed the country had enjoyed strong growth of 5.4% in the first half of the year, a little ahead of estimates, though no match for last year.

Tyres to telecoms

In a surprise move, **Pirelli**, best known as a tyres and cables company, and the **Benetton** family, owners of a clothing firm, wrested control of **Telecom Italia** by purchasing a 27% stake in Olivetti for *euro*7 billion ($6.2 billion). The deal gives them a 55% stake in Italy's giant telephone company, which has a market capitalisation of *euro*70 billion.

America's Department of Justice threatened to sue to prevent a $4.3 billion bid by **United Airlines**, America's second-largest carrier, for **US Airways**, the sixth largest. A merged firm would have controlled more than a quarter of America's domestic market raising fears that competition would be further eroded.

See article: A smoother ride

A federal appeals court in America rejected **Microsoft**'s request for it to re-examine its ruling that the software giant had illegally “co-mingled” computer code in its Internet Explorer browser and Windows operating system to protect its monopoly.

America's Federal trade Commission cleared **PepsiCo**'s $14 billion takeover of **Quaker Oats**, but only just. An investigation into whether the deal would hamper competition in the soft-drink market was closed after regulators split evenly along party lines.

GE Capital, the finance arm of General Electric, paid $5.3 billion for **Heller Financial**. The acquisition strengthens GE Capital's corporate-finance business and gives it a base for expanding in Europe.

Investors in two Internet firms, **Amazon.com** and **eBay**, are suing a Wall Street analyst, Mary Meeker, and her employer, Morgan Stanley, for bullish recommendations of Amazon and e-Bay shares.

Chips are down

Japan's NEC, the world's third-largest chip maker, responded to the precipitous decline in world chip demand by announcing the it would lay off some 4,000 workers, 2.5% of the total. The cuts will be made at plants outside its home market.

Pearson, a British media group (and owner of 50% of *The Economist*), said it would struggle to hit its profits targets for the year. After an advertising slump, pre-tax profits for the first half were just £5m ($7.2m). However, Pearson claimed that healthy growth at its education and publishing arms would help it ride out the downturn better than most rivals.

Pre-tax profits of **British American Tobacco** increased 33% to £936m ($1.3 billion) in the first half compared with a year ago. As the world economy worsens, some Europeans turned to BAT's soothing products for solace.

Clifford Chance outstripped law firms worldwide to record revenue of £938m for the year to the end of April. The firm prospered through a series of mergers with European firms designed to take advantage of the hastening pace of integration on the continent.

Citing world economic slowdown, the **Bank of England** made a surprise quarter-point cut in interest rates to 5%. The drop was not widely expected because of buoyancy in Britain's retail spending and in its housing market. The European Central Bank left its key rate unchanged at 4.5%.

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Politics this week

Aug 2nd 2001
From The Economist print edition

Israel assassinates

Eight Palestinians, including two senior Hamas leaders, four other members of the Islamist group and two children, were killed in an **Israeli attack** in Nablus. America's State Department condemned the assassination as excessive and provocative in unusually forceful language.

See article: The consequences of selective killing

The coalition led by **Japan**'s Liberal Democratic Party held on to its majority in an election to the upper house of parliament. Before Junichiro Koizumi's election as party president in April, the party had looked certain to lose.

See article: Japan's great hope

In a setback for the United States's **war on drugs**, a Colombian judge ordered a halt to an increasingly controversial scheme to spray coca fields with weedkiller. He later said that his ruling applied only to Indian reservations. Officials said that spraying elsewhere would continue. In Canada, new rules were introduced to allow marijuana to be used for some medicinal purposes.

See article: Trouble for Plan Colombia

No to clones, yes to drilling

The American House of Representatives approved a comprehensive ban on **human cloning**, even for scientific research, and promised stiff penalties for those caught flouting it. The House also voted to retain rules that will not allow President George Bush to relax the permitted amount of arsenic in drinking water.

See article: The wrong road

Congress delayed plans to hold a vote to give Mr Bush **trade-promotion authority** (known as fast track) until the autumn.

Better news for the president: the House approved Mr Bush's **energy plan**, including a scaled-back version of his controversial proposal to allow drilling in a wildlife refuge in Alaska.

Mr Bush broadly accepted recommendations for **election reform** put forward by two former presidents, Jimmy Carter and Gerald Ford. The proposals were designed to avoid more confusions like last year's ballot-counting debacle in Florida.

Blair in Argentina

As part of a wider Latin American trip, **Tony Blair** became the first British prime minister to visit Argentina, with which Britain has a territorial dispute over the Falklands. Mr Blair praised Argentina's austerity plan, aimed at avoiding a debt default. Earlier, in Brazil, he had offered to support efforts to free farm trade.

See article: Crying for Argentina

Guatemala's armed forces demonstrated their continuing power. A prosecutor who in June put senior army officers behind bars for the murder of a bishop was forced to flee into exile.

Alejandro Toledo was sworn in as **Peru**'s new president, completing a transition to democracy after the overthrow of Alberto Fujimori's authoritarian regime. He promised a “war on poverty”.

See article: Starting again

Over 100 athletes competing in the **Francophone Games** in Canada applied for asylum. The games are designed to promote cultural as well as sporting unity among French-speakers.

Summit talks

As evidence mounted of police brutality at the **G8 summit** in Genoa, Italy's right and left argued furiously over the blame. Several inquiries may uncover the facts. Several police heads already look likely to roll. The guilty, if any, would be punished, promised the government, belatedly but under pressure both at home and from other European Union governments.

See article: Shamed

Spain's prime minister, Jose Maria Aznar, met Juan Jose Ibarretxe, would-be separatist premier of the country's **Basque region**. No meeting of minds, but even a meeting, with mutual respect, was a step ahead.

See article: Half a step forward

The war-crimes tribunal at The Hague found Radislav Krstic, a former Bosnian Serb general, guilty of **genocide** for his role in the murder of nearly 8,000 Muslim men and boys at Srebrenica in 1995. He was sentenced to 46 years in jail. It was the first conviction for the gravest of crimes the court can try.

Another small boost for France's favourite anti-globalist and McDonald's-trasher, **José Bové**: a judicial investigation will be held into his alleged trashing of the reputations of animal-feed manufacturers.

See article: Putting the brakes on

Western mediators sweated on to arm-twist rival **Macedonians** into a peace deal. They claimed to have achieved a deal on the use of the Albanian language.

The governments of Britain and Ireland gave **Northern Ireland**'s not-quite-warring factions a plan meant to review the moribund peace process. Protestant terrorists shot dead a Protestant youth among his Catholic friends.

See article: On the brink, again

The right to party

The leader of **Australia**'s right-wing One Nation party appeared in court accused of illegally registering her party and subsequently accepting A$500,000 ($260,000) in electoral finance. She denies the charges.

The government of **Kazakhstan** won praise for abolishing exit visas.

Kim Jong Il, reclusive leader of **North Korea**, took a long train ride to Moscow.

See article: Slow train coming

The sanctions regime against **Afghanistan** was tightened. UN monitors will be posted at its border with Pakistan to ensure that no military supplies get through.

China charged yet another Chinese-born American, Wu Jianmin, with spying.

Zimbabwe's favourite party?

ZANU-PF, **Zimbabwe**'s ruling party, won a by-election at Bindura with an increased majority. It was seen as a test of opinion before next year's presidential election.

See article: One more for Mugabe

At least nine civilians were murdered in the diamond area of **Sierra Leone**, apparently by a splinter group of the rebel Revolutionary United Front, which has signed a ceasefire with the government.

A businessman, Fradique de Menezes, won a presidential election in **Sao Tome and Principe**, beating a former Marxist president.

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Japan's great hope

Aug 2nd 2001
From The Economist print edition

The country's maverick reformer, Junichiro Koizumi, now has a popular mandate. He must use it

Rex Features

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"I WAS able to overcome the first obstacle" was Junichiro Koizumi's sober take on his election victory on July 29th. This was modest: his achievement was little short of astounding. In the three months since he became leader of Japan's Liberal Democratic Party (LDP), the wavy-haired, trendily clad Mr Koizumi, whose predecessor was driven from office by dismal opinion-poll scores, has notched up approval ratings of over 80% and translated them into an impressive 65% of the contested seats for his ruling coalition in the upper-house election last Sunday. Before he took over, most people had expected the coalition to lose its upper-house majority. Some even spoke of the extinction of the venerable LDP, which has held power for all but ten months since 1955.

Yet Mr Koizumi's downbeat assessment was realistic too, because his real problems are only now beginning. He actually has to do something to try to revive the world's second-largest economy, which has lain flat on its back for almost a decade, rather than just talking about it. This is hardly a propitious time to take the task on, given that the rest of the world—including, most notably, Japan's biggest export market, the United States—is also now in, or close to, a recession. For that reason, though, Mr Koizumi's success or failure matters more than for any recent Japanese prime minister.

The outcome will depend most of all on the LDP itself. Its dinosaurs, the ones who have steadfastly opposed ending the feather-bedding of privileged (and duly appreciative) groups like Japan's farmers, builders, utilities and banks, have been pretty quiet up till now; after all, there was an election to win. But perhaps they have not really believed themselves to be under threat. After all, Mr Koizumi has been pretty vague about most of his reforms. And the dinosaurs know, as Mr Koizumi knows, that he won the LDP presidency against the wishes of most of his own parliamentary party (see article). Yet, strong though the old guard is, Mr Koizumi has strength of his own. He is so hugely popular that it would be politically risky for anyone to be seen to be too obviously frustrating his plans.

The pain won't hurt too much

Japan's recent political history is littered with the corpses of reformers, swept in on a wave of hope only to be swept out again when those hopes were dashed. The voters may say they want change, but they have shown no great taste for the discomfort that tends to go with it.

Will Mr Koizumi fare any better than others before him? He has certainly not been shy about promising pain. Throughout the election campaign he stressed his theme: "reform with no sacred cows". And few would deny that sacred cows, herds of them, need slaughtering. A list would include the building industry, relentlessly protected and propped up by public spending, agriculture, also hideously protected, as indeed are service industries of all kinds. Perhaps top of the list would be the utilities, among the world's most expensive and cosseted, whose inefficiency throttles economic activity at every level.

Economic recovery, however, will demand more than a wholesale opening up to competition. It will require, in particular, action on the country's huge stock of dodgy debt. The government itself says the banks have ¥150 trillion ($1.23 trillion) in bad or doubtful loans on their books. Yet Mr Koizumi has said little

Economic recovery will demand action on

about what he would do about it. Current plans talk of dealing with only ¥13 trillion. A far more ambitious programme is needed, one that will in effect nationalise the unsound banks temporarily, while regulators hive off their bad loans and then sell whatever good bits remain of the banks to help cover the cost. Until that happens, the normal lending and borrowing on which any economy depends will not resume, and neither households nor companies will regain the confidence to start spending money again.

Lots of pain; and a purge of the banks. It sounds worthy. But the risk is that this could just make a weak Japan even weaker, by intensifying deflation and raising unemployment. It is worryingly reminiscent of the early 1930s in America, when following the 1929 Wall Street crash the consensus favoured “liquidation”—ie, pain and a purge—accompanied by tight money in order to enforce “discipline”. What followed was the Great Depression.

...if everyone goes on a spending spree

That danger means that demand must also be boosted, even while Mr Koizumi's supply-side purge is under way. The rigidities in its banks, utilities and service industries are not Japan's only problem: as bad is a systemic deficiency of demand, rooted in the asset-price collapse of the early 1990s, since when some property prices have fallen by 80%. Individuals and companies who have seen their net worth so badly eroded save more and spend less.

Japan has already tried one kind of demand-management: vast extra spending on public works that have littered the landscape with roads leading nowhere, bridges no one crosses and airports that lie idle. About $1 trillion has been pumped into the economy in this way over the past decade. An alternative way to stoke demand would be to cut taxes, but the scope for doing so is limited by the huge budget deficit, which stands at over 130% of GDP.

There is, however, another way to do it: a much looser monetary policy. Interest rates are at zero, and cannot be cut further. But the Bank of Japan could buy in much more government debt, reducing its stock and in effect printing more money. The problem is that its governor, Masaru Hayami, is reluctant to do so on the scale required: he fears inflation, and thinks, like his 1930s American forebears, that loose money will erode the incentive for structural reform. It is Mr Koizumi's task to persuade him he is wrong. Failing that, he should seek his removal, pointing out that, independent though the bank may be, Mr Hayami has failed in his duty to achieve price stability. All this is a tall order for any prime minister, not least one whose relations with his own party are still evolving. But unless Mr Koizumi is bold, Japan's deflation will only continue, and with it today's national despair.

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Spain and the Basques

Half a step forward

Aug 2nd 2001
From The Economist print edition

The national and regional leaders have met, in discord but in mutual respect

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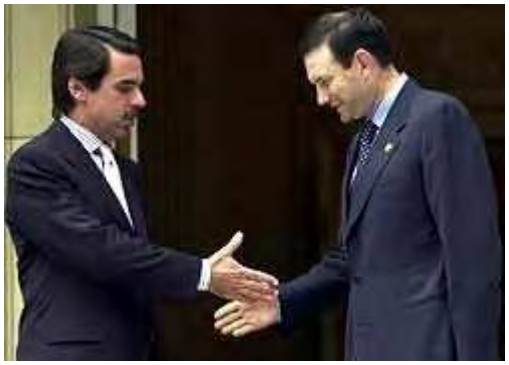

THE prime minister of Spain met the head of one of its most important regional governments this week. So what's new? The answer is, this was. Since early last year, the prime minister, Jose Maria Aznar, and his People's Party (PP) had treated the Basque Nationalist Party (PNV) and the Basque government that it ran almost as pariahs, damning them as too soft on, if not actually in league with, the Basque-separatist terrorists of ETA. Though widely shared in Spain, that view was not fair to the PNV, and even less so to the regional premier, Juan Jose Ibarretxe.

In a regional election in May, the Basques gave the centre a sharp rebuke. They slashed support for ETA's real political friends from 18% (in 1998, after the gunmen had called a ceasefire) to 10% (now that, since early 2000, they were back killing again). But disgust at murder did not drive the voters to the PP; they gave the PNV, with a minor ally, 43%, up from 37% in 1998. Wisely, Mr Aznar has drawn the political lesson. He remains convinced, rightly, that the fight against ETA must be the first priority in the region; he is as hostile as ever to the separatism espoused by the PNV. But, with whatever doubts, he is now ready to treat Mr Ibarretxe, strengthened by the vote, as what he is, the region's elected premier and a potentially valuable ally, not a covert enemy, in the fight against ETA.

That is how things should be in a democracy between the centre and any lower-tier government of a different political colour. They do not have to love each other, but they do owe it to the voters, and to the constitution, to live in mutual respect.

Mr Aznar does, however, deserve some understanding. He, like almost all Spaniards, fully accepts the constitution. The PNV does not. It opposes ETA's gunmen, but it shares their long-term aim, independence. Hence the discord at this week's meeting. Under a special arrangement made when Spain's regions got their own governments, the Basque region is entitled to even wider powers than others. Not all have yet been devolved to it. It controls most taxation, and keeps the proceeds; but it wants, for instance, to run social security too. The centre objects that this would lead to inequality among Spaniards of different regions. But its deeper objection is that Basque nationalists would take each transfer of functions as just another step towards ultimate secession.

So when Mr Aznar and Mr Ibarretxe met, there was—for all the ear-bending that King Juan Carlos too had just given the Basque premier—no meeting of minds. Mr Aznar put forward a list of notions for joint action against ETA, and got mainly “we'll look at it” answers. Mr Ibarretxe proposed a high-level political committee to study the way ahead for Basque self-government (not sovereignty), and got a firm no, on the ground that technical committees exist already.

The meeting was valuable in itself, then, but hardly in what it led to. Yet it may lead to more. That certainly should include active co-operation from the Basque government against ETA. And from Mr Aznar? The PNV's short-term demands and long-term dream will not go away just because he and most Spaniards dislike them. He could try minor concessions. Why not go the whole hog and allow a referendum on independence? Not a chance: whatever the outcome, he sees that as the start of a slippery slope, even if the constitution allowed it. Yet the curiosity is that the separatists would probably lose. They talk of the will of the people. Those of the Basque region gave Mr Ibarretxe 43% in May, not 51%.

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Israel and the Palestinians

Self-licensed to kill

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Israel's policy of assassinating Palestinians perpetuates a futile cycle of violence

THE Israeli government's term is “pinpoint preventive actions against terrorists”. For Palestinians the policy is simply assassination. Over the past nine months, and in accelerating numbers in the past few days, almost 40 Palestinians have been the victims of Israel's policy of picking off—by missile attack, undercover forces, snipers or mysterious bomb blasts—men on its “wanted” list. Not all the killings are openly acknowledged by Israel: it denied responsibility, perhaps truthfully, for an explosion last weekend that claimed the lives of six activists from Yasser Arafat's Fatah faction. But there was no mistaking Israel's hand behind the killing on July 31st of two top Hamas men in Nablus, together with six others, including two children. Why should there be? The cabinet is not bashful about its policy (see article).

Israel justifies these extra-judicial killings as self-defence: the selected men, it says, were engaged in military activities against Israel, and they were killed because Mr Arafat had failed to fulfil his obligation to arrest them. About half the assassinated men have been Islamists, belonging either to Hamas or to a smaller militant group, Islamic Jihad. Most, though not all, of the others were from Fatah. The Palestinians argue that some of them, including some Hamas men, were politically rather than militarily active, and that others were not involved in anti-Israeli actions at all.

The Israeli army argues not just that the policy is a reasonable defensive tactic, but that it also has the effect of minimising collateral damage. The claim is plausible. Although bystanders sometimes die alongside the men under attack, assassination is plainly a more discriminate way of getting rid of somebody than lobbing a shell, or dropping a bomb, in the general direction regardless of who may be standing in the way. It is a consideration to which moral philosophers would certainly attach some weight. But the usual context of such a discussion would be that the two sides involved were at war, and therefore by definition intent on killing one another's militants in the most efficient way they could devise. The barely remembered truth is that the Israeli government and the Palestinian Authority (PA) are supposed to be partners in a peace process and are, moreover, bound by a ceasefire.

That is the point. The morality, and even the legality, of assassination can be argued about; its practical effects are almost certainly dire. For a start, the killings provoke revenge, perpetuating a cycle of retaliation that can only lead to more bitterness and violence, more martyrs and suicide bombers. They also defeat the aim of Israel's declared policy of getting Mr Arafat to arrest extremists.

Under the arrangement brokered by George Tenet, the head of the CIA, on June 13th, Mr Arafat has undertaken to arrest Palestinians who break the terms of the ceasefire—though he did not agree to Israel's demand that he should arrest individuals for earlier actions taken during the *intifada*, arguing that this should be part of some general sorting-out on both sides. Since the ceasefire, the PA has arrested about a dozen Islamists, not nearly enough to satisfy the Israelis. But whether or not Mr Arafat's limited commitment was made in good faith has never been put to the test. Instead, it has been scuppered by Israel's decision to take direct action. For there can be no question of the Palestinian leader ordering mass arrests as long as the Israeli government is blasting away at members of his own political faction, police and security forces.

Things fall apart

Where will it all end? In bloody disintegration perhaps. Israel's prime minister, Ariel Sharon, calls it a policy of “self-restraint”. But it involves a merciless hammering of the Palestinians, militarily and economically, which stops short only of the outright reoccupation of Palestinian-controlled territory. Israel offers nothing to balance the violence—no inducements, no hope of political movement. Little wonder that the PA's control is slipping away, and the power of local factions growing fast. Mr Sharon claims this is not his aim. He insists he is not trying to undermine Mr Arafat and his authority. Perhaps, but that is what is happening. Without a change, the upshot will be misery and violence on an even grander scale.

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Italian capitalism

Flattering to deceive

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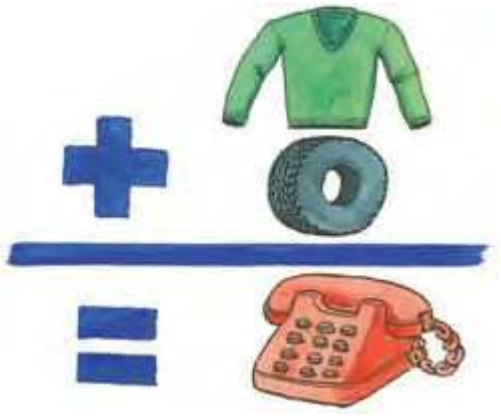

The latest takeover of Telecom Italia shows the flaws in Italy's corporate culture

TWO years ago Italians watched agog as a hostile Olivetti audaciously won control of Telecom Italia, a company five times its size. Roberto Colaninno, Olivetti's boss, was the hero of the hour, applauded for challenging an elite that had long taken for granted its ability to carve up Italian industry. Now, to his chagrin, Telecom Italia is changing hands again. On July 28th Pirelli, a tyre and cables group, and the Benetton family, of fashion fame, announced that they had paid *euro*7 billion ($6.1 billion) to buy a 27% controlling stake in Olivetti, which in turn controls Telecom Italia. Deserted by his one-time backers, Mr Colaninno resigned, his pain no doubt alleviated by the fact that he received an 80% premium for his Olivetti shares. On the face of it, this was simply the new Italy in action. No company, however powerful and respected its owners, is immune to financial and industrial logic. Even long-established groups like Pirelli are free to shift their focus.

Unfortunately, the closer one looks at the latest deal, the less flattering the picture becomes. Under Silvio Berlusconi's premiership, Italy's old industrial dynasties are reasserting their power over the country's main economic assets. Just before Pirelli's move against Olivetti, the Agnelli family, along with France's EDF, succeeded in taking over Montedison, a holding company the Agnellis intend to use to move their Fiat empire away from cars and towards energy and services.

If such transactions were transparent and fair there would be few objections. However, both Fiat and Pirelli have acted in ways that suggest they care only for the interests of the families that control them. Minority shareholders in Montedison and Olivetti have watched helplessly as powerful insiders have earned fat premiums by exchanging blocks of shares at above-market prices. Under Italian takeover rules, an acquirer need only launch a full bid once it has amassed a 30% stake. There is nothing particularly unusual in that. But Italy's tolerance of complex “cascades” of holding companies means that effective control can often be secured at a lower level—as in Pirelli's case—at the expense of small shareholders (see article).

False dawns

Even more worrying is that Italian industrialists see no problem with this and clearly intend to continue exploiting an inadequate system of corporate governance. Announcing the Telecom Italia deal, Marco Tronchetti Provera, Pirelli's boss, quipped that the Anglo-Saxon world, with its pension funds and mature financial systems, would criticise almost any Italian takeover as unfair. So it would, and it would be right to do so. It is not just a question of a few whingeing overseas fund managers. By any measure Pirelli is

embarking on a highly risky strategy. Shareholders who thought they understood the group must think again now that their shares have lost a good chunk of their value. If they behave like Pirelli, Italian firms will increasingly lose access to foreign capital. And foreigners will become increasingly leery of investing in Italy for fear of being hoodwinked by better-informed insiders.

Two lessons stand out. The first is that apparently ground-breaking deals are not always what they seem. Think of Vodafone's hostile takeover of Germany's Mannesmann last year. Hailed as revolutionary, it was indeed a refreshing change from the backroom deals that typify German capitalism. But it has not caused a flood of similar transactions. Instead, it rallied German opinion against the European Union's proposed takeover directive, which was recently voted down by the European Parliament. Similarly, in retrospect Mr Colaninno's takeover of Telecom Italia, though daring, relied on political patronage from the then D'Alema government, which was none too keen to see its telephone giant swallowed by Deutsche Telekom. And it was Mr Colaninno himself who created the cascade of firms that in the end proved his undoing.

The second, more important lesson is that Italy still has a long way to go before it can be considered a transparent and modern economy. Above all, it must encourage stockmarket reforms that make it illegal to set up complex webs of holding companies. When Mr Berlusconi talks of the need for reform, this is the sort of thing he should have in mind. Already in the spotlight for the conflicts of interest that arise from his twin roles as political leader and business tycoon, what better way for him to counter his critics (apart from selling his own media empire, of course) than to tackle issues that are central to Italian companies' ability to compete for global capital? By his actions he will reveal whether he is an old-fashioned businessman or a modern-minded reformer.

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Cloning and stem cells

The wrong road

Aug 2nd 2001
From The Economist print edition

The United States is making a muddle of the ethics of genetic science

Get article background

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FOR years the United States has been torn apart by arguments about abortion. Now a new and much more complicated series of questions about genetic science threatens to bedevil its politics. George Bush has already spent much of his summer agonising over whether to allow federal money to support promising-looking research into stem cells that have been extracted from embryos. Now, after a long, fraught and admirably passionate debate, the House of Representatives has voted for a bill that would ban all forms of human cloning.

To establish our own prejudices from the start, *The Economist* would rather that the House had set a moratorium on “reproductive” cloning (ie, the perilous business of making new humans), but allowed the therapeutic sort, which produces cells for useful research. We would also urge Mr Bush rapidly to approve federal money for stem-cell research. Stem cells are the genetic equivalent of a blank canvas: they can be encouraged to grow into any sort of cell, and thus could prove invaluable in helping to find cures for diseases like Parkinson's and Alzheimer's. Yet the real lesson of the current anguish in Washington, which should be heeded by both supporters and opponents of the various proposals, is the need for an independent regulator, similar to Britain's Human Fertilisation and Embryology Authority, to oversee genetic science.

Unaccountable and unelected

The Economist is not easily drawn to the idea of more regulation. But genetic science is a special case. Begin by accepting that this is a debate in which, for everybody except those on the ideological extremes, the ethics are nearly as complicated as the science itself. For instance, some anti-abortion conservatives, notably the pope, oppose any stem-cell research that involves destroying an embryo. But many other anti-abortion activists, including Tommy Thompson, Mr Bush's health secretary, think that the research will save lives; and that, although it may be possible to extract stem cells from adults, embryos, for the moment, represent the best source.

Similarly, on cloning, some congressmen felt that it would be impossible to legalise therapeutic cloning in a way that did not leave the door open for people to do reproductive cloning. That is probably wrong; the proposed British system, in which cloned “therapeutic” embryos are allowed to exist for only 14 days, could work. But the scientific process is the same, so it is not easy to draw the distinction.

Similarly wavy lines exist in nearly all the different forms of genetic science, from genetic testing for insurance to pre-birth genetic modification. This is worrying, not least because most scientists are keen to push ahead on all fronts, while most voters remain nervous about such advances. Opinion polls show that most people oppose the idea of “giving the green light to mad scientists to tinker with the gift of life”, as one Republican congressman put it this week.

Given these complications, America's current regulatory system is a mess. The government's only source of control is through the money it spends. That gives it considerable clout in the industry: its reluctance to spend money on stem-cell research has already persuaded some American scientists to go to (more liberal) Britain to do their research.

But all this still leaves scientists pretty much free to do what they want, so long as they use private money. One cult is trying to clone humans; a company recently announced plans to harvest embryos; another firm is offering a service for couples to choose the sex of their child; and so on. In this particular area, American public opinion is surely unlikely to accept the idea that something should be allowed to go ahead merely because it is in the private sector. The odds of producing a healthy child through reproductive cloning are tiny.

It is here that an overseer similar to Britain's HFEA, a panel of scientists and ethicists accountable to parliament, would be useful. Why not trust Congress to set these limits itself, rather than devolving the power? Some of the reasons were on display this week. The science in many parts of biotechnology is moving much faster than politicians can grasp. There is also the danger that politicians will jump for broad, panicky proposals—such as the bill passed this week—when subtlety and some experimentation is needed. And of course there is the poison of the abortion debate to avoid at all costs.

Most of the arguments about genetic science cut across the standard battle-lines between conservatives and liberals. If Mr Bush and Congress can keep it that way, America will gain. So far, the prospect does not look promising.

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Letters

Aug 2nd 2001
From The Economist print edition

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Customer relations

SIR – You have succumbed to some of the mythology and hype long promulgated by marketing consultants and most academics, who should know better ("Keeping the customer satisfied", July 14th). There is little evidence that customers actually behave in the ways those peddling so-called loyalty schemes would have us believe. Most customers, particularly for often-purchased consumer goods, see no great difference between competing brands and actually buy from a repertoire. This has been established for over 30 years from extensive research. Just think of your petrol buying over six months. Customers are not naturally "brand loyal", so to try to change this is foolhardy. Few, if any, companies have actually done it.

Why are people in business schools not taught this? Because the American marketing academics who write the textbooks are either unaware of this British research or find it too awkward. Their notions of " segments" and "niche-brands", (also non-existent—they are just small-volume brands that are bought by few people not so often) would have to be thrown out of textbooks and consultants' presentations. Also, you suggest that firms should aim to "tie in the most valuable customers with keener prices." Why give a discount to people who are obviously finding what you do to their liking, and paying for it?

David Corkindale
University of South Australia
Adelaide

SIR – Customers of upmarket cars are conditioned to wait, taking that as a sign of craftsmanship and scarcity value. Equally, customers of mass-market cars have been conditioned not to wait. They get a better deal if they take what is in stock and they avoid the uncertainty of ordering from the factory. The system sells cars from stock for a lower price even though they entail much higher costs than those built to order.

Research by the International Car Distribution Programme shows that customers will wait if they are given an exact and reliable delivery date and rational rather than perverse incentives. Although based on European experience, this insight is also relevant to America, which currently operates the most wasteful stock-based selling system for cars. Shifting to mass customisation does require changing the conditioning of customers, and this in turn requires a change in behaviour and incentives for salesmen in dealerships and in what the car firms build. The prize, in terms of consumer benefit and system efficiency, is certainly large enough, especially for those who get there first.

John Whiteman
Project director, ICDP
Solihull, West Midlands

Bertie and the bomb

SIR – Your review of "The Selected Letters of Bertrand Russell" ("Love, Bertie ", July 21st) states that the book's editor, Nicholas Griffin, "scotches, for example, the often repeated claim that Russell once advocated a pre-emptive nuclear strike against the Soviet Union. " Let me unscotch it. I was in the audience at the public meeting at which Russell advocated precisely this, and it made a big impression on me at the time. The occasion was a gathering organised by some peace-loving foundation whose name I forget (my records are in store at present), held in 1948 or thereabouts, in the still roofless hall of

Westminster School, of which I was then a pupil. When, some 20 years later, I recalled the event in the *Spectator*, which I then edited, I received (and published) a letter from the man who had organised the meeting. He corroborated my account and added how surprised and shocked he had been at Russell's proposal.

Needless to say, Russell advocated a pre-emptive nuclear strike on strictly humanitarian grounds. In a nutshell, he pointed out that at the time the Soviet Union did not yet possess a nuclear capability but that it would very soon do so, after which all history made it clear that sooner or later there would be a nuclear war between the two superpowers that would be infinitely more devastating than either of the two world wars through which he had lived. The only sure way of preventing this Armageddon, he concluded with remorseless if unpalatable logic, was for America to launch a nuclear attack on the Soviet Union before it acquired the bomb: after that it would be too late.

Lord Lawson
London

Health of nations

SIR – You say that "by accepting a mixed system, based on social insurance, rather than a taxation-based system in which the government is overwhelmingly the single buyer of health care, continental Europe has succeeded in bringing more money into health care" ("Socialism in one country", July 14th). What does continental Europe have to brag about? What counts is whether the system delivers better value for money. England and France have similar records in terms of public health, so we pay two percentage points of GDP more than the British in health spending for no palpable benefit.

This should come as no surprise. The only check on the consumption of health services in France is the so-called "ticket modérateur", ie, the fraction of health bills which is not covered by social security. Even though it does mean that more private money pours into health care, such a system is less likely to curb wasteful spending than more sophisticated methods such as fund-holding GP s in Britain. Indeed, studies by the Caisse Nationale d'Assurance Maladie, which finances health care in France, show that around 20% of medical acts are unnecessary or even dangerous. Comparing the efficiency of the French and British systems would require much more detailed analysis. But it is certainly imprudent to suggest that our system is better because we pay more—whether the money is public or private.

Vincent Chriqui
Paris

SIR – Real change in health care is not a matter of more public money pouring into the system. The last time the Swedish government tried this the results were poor. Change only takes place when you support competition among private contractors, bringing new ideas and procedures into publicly-financed health care. For ten years, inhabitants of the Stockholm region have had access to a large number of alternative service producers. The system remains open to all but takes advantage of the driving forces of private, profit-generating action. The outcome? Radically shorter waiting lists compared with "unreformed " parts of Sweden. Tony Blair's government has actively monitored these efforts.

Johan Hjertqvist
Timbro Health Unit
Stockholm

Tax-cut avoidance

SIR – Your article on the trials of the euro ("Trust or mistrust thy euro neighbour?", July 21st) notes that Ireland has been rebuked by the European Commission for cutting taxes in the middle of a boom and that Germany is now in difficulty arising out of tax cuts in the middle of an economic slowdown. Would it be too facile to conclude that tax cuts are never acceptable in the euro zone?

Sean Guerin
Dublin

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Japan's election

The voters give Koizumi a chance. Will the LDP?

Aug 2nd 2001 | TOKYO
From The Economist print edition

AP

Junichiro Koizumi, Japan's prime minister, has won a famous victory in an election for the upper house of parliament. Can he use it to fix the economy?

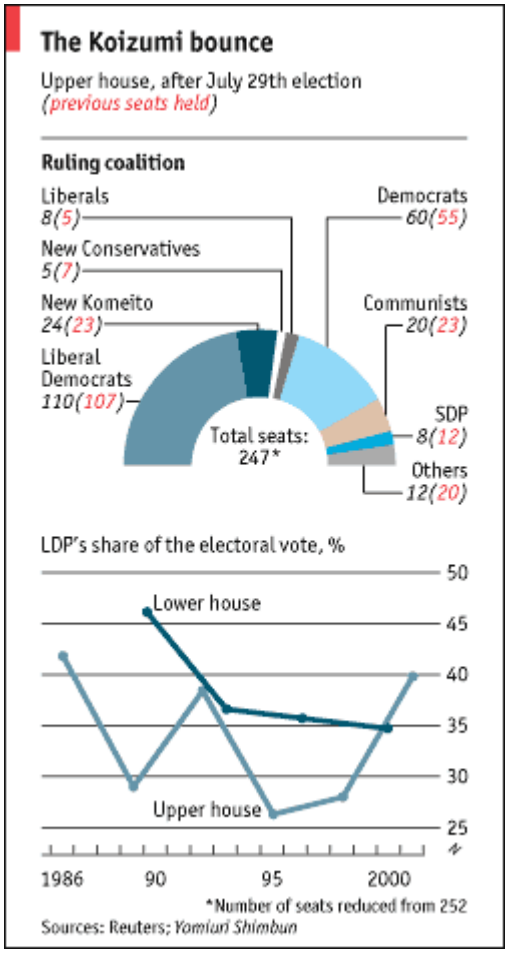
Get article background

"BANZAI!" the old men shouted as news of success arrived, before straightening their suits and starched white shirts, patting back their oiled hair and bowing politely to their supporters. But not even in the giddy rush of victory could anyone mistake the true victor in this week's election of half of Japan's upper house of parliament. One by one, the winning candidates—even those from rival factions of his party—lined up before the television cameras and humbly thanked their prime minister, Junichiro Koizumi. They had, they confessed, "climbed aboard the Koizumi wind". The opposition parties were left stunned by the force with which that wind had swept their votes away.

As the dust began to settle, the full extent of Mr Koizumi's achievement became clear. Reversing years of decline at election after election, Japan's charismatic prime minister had led his Liberal Democratic Party (LDP) to its best result since 1992.

It was a famous victory. Only three months ago the LDP was in a horrible mess. Desperately unpopular with the voters, and at war with itself, it was losing support even in the countryside, where farmers, building workers and postmasters were turning their backs on their patrons in the party.

Mr Koizumi won back this bedrock of voters, claiming victories everywhere from Tochigi to Niigata. But he also did the party proud in the cities, where the disgruntled urban majority had long ago seemed to give up hope that the LDP would ever change its ways. The LDP's final tally, of 65 seats, by itself surpassed the joint target of 63 seats that Mr Koizumi had set with his two junior coalition partners, New Komeito and the New Conservative Party. This coalition is now firmly in charge of both houses of parliament.



The enemy within

Mr Koizumi owes his winning popularity to two main things. His supporters praise his refreshingly direct style, which shines amid the dull circumlocutions of other politicians (though critics claim to see a sort of mass hysteria in the screaming crowds that come to hear him speak). In addition, Mr Koizumi has another great merit. He promises to take on the people Japanese voters most distrust: the Liberal Democrats themselves.

The new prime minister campaigned against the LDP's elders during the party's leadership election in April and built his majority, against their wishes, among the rank and file. From the office of party president, he has since then been running on something close to an anti-LDP ticket. If the LDP dared to stand in the way of his reforms, Mr Koizumi said, he would crush it.

Beyond Mr Koizumi's fighting talk, however, there was scant evidence in this election that Japan is really on the march to a political revolution. There were touches of Koizumi-like colour here and there. Among the LDP's successful candidates were talk-show hosts, Olympic stars and popular pundits. Younger hopefuls gushed earnestly about changing Japan. But elsewhere the political landscape looked depressingly familiar, as elderly LDP candidates went about the time-honoured ritual of gathering in the organised vote. Some were backed by doctors' associations. Others owe their political debts to building firms, farmers, postal workers and railwaymen. Even the national dentists' association fielded a candidate.

All the time, the LDP's machine was marketing Mr Koizumi like a Pokemon character. Suddenly, giant mugshots of Japan's crinkly-faced prime minister were plastered everywhere, on buildings, in shops and inside people's houses. Housewives queued up to buy half a dozen posters at a time. As the votes rolled in, Mr Koizumi claimed victory for his policies. “There can be no going back,” he said. “We have to move forward with reform.”

But reform does not sit easily with the sort of politics that has been on display in Japan so far this summer. The LDP remains a loose assembly of factions dedicated to a wide range of special interests. Mr Koizumi's reforms challenge these special interests. The real battle has yet to be joined.

The LDP remains a loose assembly of special-interest factions

When the Japanese complain about the “logic of Nagatacho”, Tokyo's political district, they mean that the insiders' political game and the wider politics of the outside world have drifted apart. As Mr Koizumi was slugging it out for the LDP's leadership in April, this complaint was on everyone's lips. The economy was slowing, the banks were in trouble again, and policymaking had all but come to a halt. But the LDP seemed unable to see beyond its own petty, factional battles. Mr Koizumi's cleverness has been to harness the voters' dissatisfaction to his own battles within his party: he is using his personal mandate for change to take on the enemy within.

The LDP's family feud dates back to the late Kakuei Tanaka, a giant of money politics. Tanaka left two legacies. The first was an unrivalled network of political donors, on which he built a faction whose clout remains unmatched. The second was a style of leadership. Although Tanaka resigned as prime minister after a scandal in 1974, he continued to pull the strings behind the scenes. Ever since, his faction has either installed its own man in the top job (Noboru Takeshita, Ryutaro Hashimoto and Keizo Obuchi, to name but three), or at least managed to control a weaker man through key cabinet and party posts.

When Yasuhiro Nakasone came to power in 1982, his team was dubbed the “Tanakasone” cabinet. Even worse, Yoshiro Mori, Mr Koizumi's shambolic predecessor, sometimes went quite unconsulted on important matters. The decisions were taken by leaders of the Hashimoto faction, the name the Tanaka faction bears now.

A party set in concrete

Opposition to the Hashimoto faction centres on a trio of “anti-mainstream” leaders collectively known as YKK. One of the Ks is Mr Koizumi. The Y is the man he chose as the LDP's secretary-general, Taku Yamasaki. The other K is Koichi Kato, who would also have been an important part of Mr Koizumi's government had he not already led an embarrassingly inept coup against Mr Mori, and ultimately the Hashimoto faction, last November.

What Mr Koizumi has done is to unite the LDP's anti-mainstream forces against the Hashimoto faction under the banner of reform: change the LDP, change Japan. Mr Koizumi champions his supply-side reforms in the name of small government and a revitalised private sector. But they are also an assault on the Hashimoto faction's financial interests. The manifesto that Mr Koizumi's economics minister, Heizo Takenaka, unveiled last month contains several striking features.

One is a pledge to cap government bond issues, starting from the fiscal year beginning in April 2002. Among the government's favoured methods is a review of the public-works budget, a source of largesse for the Hashimoto faction ever since Tanaka first launched his drive to “remodel the Japanese archipelago” in the 1970s by covering large tracts of Japan in concrete. Another initiative would scrap the laws that reserve petrol and vehicle-tax revenues exclusively for road-building. These laws create a huge pot of money that LDP politicians help to channel, using their connections in the public-works bureaucracy, to favoured contractors.

Mr Koizumi plans to tackle the bureaucratic interests in these collusive, and often corrupt, relationships by reforming the bureaucracy's own business interests, called special corporations, some of which appear to serve little purpose beyond providing comfy jobs for retiring bureaucrats. Some Hashimoto-faction politicians specialise in protecting the publicly owned post office. Mr Koizumi has for years urged its privatisation.

These policies make sense to ordinary Japanese as well as to the LDP's anti-mainstream members. Japan's long economic slump has left voters with serious questions about the party's ability to manage the economy. Ten years after the price of property and shares collapsed, the banks still struggle under a mountain of bad debts. Enthusiastic government spending on public works has failed to return the economy to faster growth.

Yet, although the government insists that deregulation holds part of the solution, progress has been painfully slow. Each new initiative is met by a disciplined cadre of LDP politicians who have spent their entire careers specialising in keeping things the way they are. These “policy tribes”—groups of LDP law makers attached to the various committees of the party's Policy Research Council—frustrate bank reform, protect publicly owned businesses from privatisation, deregulation and proper regulation, and keep the public-works spigot open. So intricate are the arrangements that there is even an LDP tribe specialising in sewers.

Privately, LDP tribesmen have been arming for battle

There has been no open warfare yet. But, privately, the party's tribesmen have been collecting their clubs for battle. Two days after Mr Koizumi announced his initiative on road-building, LDP road-tribe members gathered more than 2,000 local-government leaders in a hall near the party's headquarters in Tokyo. This ad hoc National Conference for Promoting Road Expansion condemned Mr Koizumi's plans, saying they would hurt local-government independence. Hiromu Nonaka, the power behind Mr Mori's administration, has quietly installed himself as deputy chairman of the Policy Research Council's subcommittee on highways. Muneo Suzuki, another Hashimoto faction diehard, has called Mr Koizumi a “fascist”.

This last point is especially revealing. The LDP's tribesmen draw their strength from consensus decision-making. Proposals for reform start with the prime minister's office. But the prime minister's office was, until very recently, poorly staffed and weak. So, in the name of consensus-building, the reform proposals get thrown to the tribes of the Policy Research Council, where they are killed. Mr Koizumi's challenge is to take control of the machinery of government for himself.

Assertive hesitancy

On the whole, Mr Koizumi gives the impression of being in command. Thanks to a series of reforms to the prime minister's office this year, he has more power at his disposal. He has more control over the budget, and can draw on the skills of a much larger staff at the *kantei*, the prime minister's residence. His decision in June to compensate lepers who had suffered sterilisation and apartheid under an appallingly backward state regime seemed to be a first stab at a new style: justice-ministry bureaucrats wanted to keep fighting against compensation in the courts.

At other times, however, Mr Koizumi has seemed less sure of himself. He dithered badly over ratification of the Kyoto Protocol on global warming, seemingly anxious to offend neither America nor Europe. Before the election, Mr Koizumi insisted that he would pay a visit to the Yasukuni shrine in Tokyo, where among less controversial memories of Japan's war dead the spirits of seven hanged war criminals are commemorated. Now he says he will make his decision after consulting his coalition partners, one of whom abhors the idea. Even the leprosy decision, say some LDP insiders, was not taken by Mr Koizumi at all, but by his chief cabinet secretary, Yasuo Fukuda.

The idea of consensus has a powerful appeal for Japanese, who seem convinced, despite abundant evidence to the contrary, that their society and culture are built on a foundation of *wa*, harmony. Mr Koizumi may find it hard to resist appeals to his sense of *wa*. Yet resist he must if he is to carry out his plans successfully.

Money, money, money

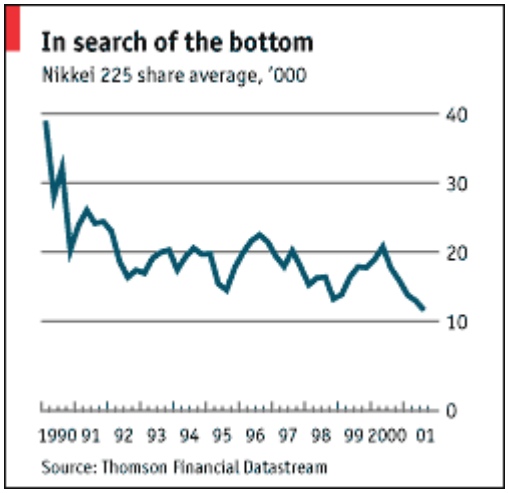
The chief cause of worry is the economy. Since Mr Koizumi took office in April, the economic news, hardly good then, has grown truly awful. The tentative recovery that began in the spring of 1999 depended heavily on growth in Japan's high-tech manufacturing base. So, when world demand for chips, optical fibre and other high-tech equipment collapsed at the end of last year, Japan was hit especially hard. High-tech goods piled up in warehouses and production collapsed.

Figures released on July 30th show that industrial production shrank at an annualised rate of 15% in the second quarter of this year. The electrical-machinery sector, which includes the high-tech industries, was responsible for more than two-thirds of this drop. The economy as a whole, having also shrunk in the first quarter, now seems almost certain to shrink again in the second. That would officially put Japan back in recession, for the fourth time in only ten years.

Recession is worsening the mess in the banking system by adding to the bad-debt mountain. It also makes prices fall even faster. Falling prices make the real value of debt grow, so that already overborrowed businesses in Japan's construction, property and retail industries grow weaker still, adding further to the banks' miseries.

Thanks to a peculiar feature of Japanese banking, a second vicious circle is in full swing in the stockmarket. Banks are allowed to count paper gains on their huge holdings of shares towards their

capital. When shares fall, therefore, their capital shrinks and they grow weaker, which makes their shares fall further. The day after Mr Koizumi's victory, the stockmarket fell to a new, 16-year low. At this level, the banks do not look far from crisis.



The political solutions that Mr Koizumi brings to these economic problems will not, at least to begin with, help matters. Cutting public works will add to deflation. So will Mr Koizumi's pledge to clean up the banks, for which a proper plan has yet to emerge. Privatising the post office and the scores of other government-run businesses would also hurt the economy in the short term, as jobs are lost.

Most of Mr Koizumi's ideas would actually accelerate the downturn

In fact, almost all of Mr Koizumi's ideas would accelerate the slide into recession, deepening the downturn. And that would make his goals harder to achieve. With less growth, the government gets less tax revenue, and so must sell more bonds to cover a bigger deficit, which means that Mr Koizumi's cap on bond issues is harder to hold in place. As the government shovels away at the banks' bad-debt mountain, recession adds freshly soured loans to the top of the heap. Already, the economy is creating new bad debts about as fast as the banks are writing down old ones.

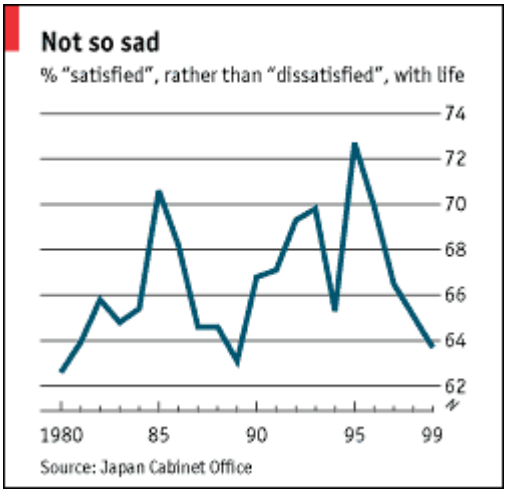
What really worries the markets is that economic policy seems to be deadlocked. The Bank of Japan, the central bank, refuses to help ease deflation by printing money until it sees real evidence that the LDP is at last tackling the banking problem. If it eases before this moment, bank officials argue, the pressure for the LDP to act will disappear. Japan seems to be going into recession with none of the usual remedies available to it.

The way out of this shambles will probably involve a combination of traditional pump-priming measures, dressed up as reforms, and some proper reform. Slowly, Mr Koizumi's economics minister, Mr Takenaka, seems to be bringing his boss round to the idea of passing a supplementary budget in the autumn. Naturally, there will not be any talk of building more unnecessary roads and bridges; forms of spending that do not reek of the pork barrel will need to be found.

Mr Koizumi has shown that he is an accomplished politician. He will have to be, if he is to negotiate these awkwardnesses and arrive at some sort of supply-side measures that also boost demand. For a start, persuading the Bank of Japan to help things along by printing more money, while he is implementing his reforms rather than afterwards, is essential.

Here, however, is the biggest shortcoming in Mr Koizumi's plans. For all his talk about painful change, he seems reluctant to come up with a proper plan for the banks. Yet banking is the one activity in which a lot of pain—bankruptcies and job losses among dud borrowers—is unavoidable if there is to be a clean-up thorough enough to rebuild confidence among borrowers and households.

For all of Mr Koizumi's talk of painful change, there is little evidence of a proper plan for banks



The voters say they are ready for painful reform. But perhaps Mr Koizumi's instincts tell him otherwise. Deflation wrecks banks and companies, but it puts money in the pocket of savers and shoppers. Clothes are more affordable than they were ten years ago. So are food, housing and other necessities. At 4.9%, unemployment is high by Japanese standards, but still low compared with joblessness in other countries. People worry about the future—the economic effects of Japan's rapidly ageing society, for instance, and job security. But the present is still very comfortable. Opinion polls suggest that more than 60% of Japanese are satisfied with their lives, a

figure that has not much changed in 20 years, despite the boom of the 1980s and the bust of the 1990s.

This seems to create neurotic and unpredictable impulses among voters. The future looks bad, so they want things to change. But the present is still good, and they fear losing it.

In Mr Koizumi's drama, Mr Hashimoto plays the part of the bad guy, frustrating reform with his evil band of tribesmen. In 1996, however, Mr Hashimoto himself took office as a supposedly reformist new leader, pledging a thorough change of everything from the bureaucracy to education. Within two years he was out, destroyed by voters thrown into panic by the experience of real pain. Mr Hashimoto stood again for the top job against Mr Koizumi in April. The feeling among voters seemed to be that he lacked Mr Koizumi's “freshness”. Mr Koizumi must be wondering if he also will too quickly grow stale.

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Immigration

Welcome, then, provided you work

Aug 2nd 2001 | SAN FRANCISCO
From The Economist print edition

AP

The United States and Mexico at last start to deal with the people who illegally head north across their shared border

Get article background

EVERY morning, along Cesar Chavez Street in the Mission, a Latino part of San Francisco, men stand and wait. When a van passes, they wave and whistle, hoping that it belongs to a builder looking for hands to do a day's work. And it is not just San Francisco. The same thing can be seen in cities and towns throughout California.

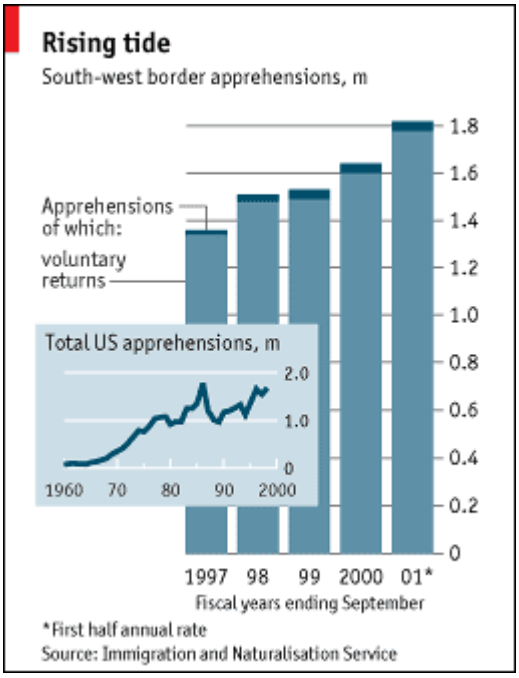
Many new arrivals in America who wish to work but do not have the documents that allow them to do so head for building sites. Much of America's farming, gardening, child-care and house-cleaning is also done by its 7m-8m undocumented workers. Without them, the economy would sag horribly; yet their work is illegal. About half of them come from Mexico.

Now George Bush and Vicente Fox, the president of Mexico, want to face up to this issue. Last month a committee charged with drawing up ideas about trade and immigration for a September meeting between the two presidents revealed that it was considering an amnesty for Mexicans illegally in America: in effect, granting them legal residence at a stroke.

In Washington DC, Republican opponents of illegal immigration, several elected from states on the Mexican border, were shocked. Would-be immigrants from countries other than Mexico, on the other hand, clamoured that they were the victims of unfair discrimination.

Mr Bush has duly backtracked a little. To mollify the anti-immigrationists, he says he is not thinking of a blanket amnesty for all Mexicans illegally in his country, just the grant of residence rights to those who have already spent some time working there. Citizens of other countries will be considered, too, although Mexico remains “at the forefront” of the discussion. But on the whole the White House is happy with the idea of an amnesty, not least because it has wrongfooted the Democrats, who like to see themselves as the pro-immigrant party.

An amnesty certainly has much to recommend it, and not just to the United States. For years, Mexico has treated those of its citizens who trek northwards for work as traitors, shameful evidence of their country's poverty and its inability to create enough work for its people. About 300 Mexicans perished last year while trying to cross the 2,200-mile border, many of them dying of thirst in the desert which lies along much of it.



Nor are the border-crossers safe once they make it into the United States. They are easily exploited, because they are afraid to complain to the authorities about ill-treatment for fear of deportation. Their vulnerability also corrupts otherwise law-abiding Americans. A fruit farm with a legal workforce is a contradiction in terms. In cities like New York the only people who employ legal nannies are the very rich, or politicians running for office.

But is an amnesty a vote-winner? Mr Fox hopes it will bring him support from Mexicans already north of the border, who four years ago were given the right to vote in Mexican elections. But from his point of view much depends on the amnesty being a complete one. His opponents in Mexico will complain bitterly if it is not. They will also be angry if Mexico is required to co-operate with the United States in patrolling the border to restrict the movement of Mexicans. There is already talk of a legal challenge, on the ground that this would interfere with Mexicans' constitutional right to free movement.

Mr Bush, for his part, would love to rescue the Republicans from their reputation for being anti-immigrant. This does them no good with Latino voters. For the past three elections California—home to half of all the Mexicans now living in the United States—has been Democratic turf partly because of the resentment caused by Proposition 187, a referendum vote in 1994 which denied illegal immigrants access to various public services.

Mr Bush himself can hardly be called anti-immigrant. He did notably well with Latino voters when he was elected to be governor of Texas. But some of his fellow Republicans think that turning Latino immigrants into citizens is bad for their party, because they reckon that most of them will vote Democratic. The Democrats have been keen on the enfranchisement of immigrants; and the trade unions, which used to oppose immigration as a source of cheap competition to their members, are now hunting hard for Latino members.

In fact, the immigrants themselves are not all that much of a problem for the Republicans. Naturalisation is a slow process, and Latinos tend to take up voting more slowly than most newcomers to America. But other more frequent voters, including middle-class white women, have been put off the Republicans because of the party's supposed anti-immigrant bias.

In fact, the immigrants themselves are not all that much of a problem for the Republicans

Part of the problem is that, whatever they feel about immigrants, many Republicans dislike amnesties. Anything that appears to reward law-breaking is likely to encourage more law-breaking, they argue. Hence Mr Bush's desire to encourage people to think of illegal immigrants as hard workers rather than criminals. His staff has been talking about a “guest worker” programme which would allow people already in the country to become eligible for residence rights if they have earned them by working hard while they were there.

For their part, the Democrats, eager to regain the initiative, are at work on a proposal of their own. This may be more generous than Mr Bush's. Tom Daschle, the Democratic leader in the Senate, is attacking the administration's proposals for not offering to other nationalities the concession offered to Mexicans. And, as if to show their displeasure with Mr Fox, the Democrats are trying to block the admission of Mexican lorries to American roads (see article).

A change in tone

The opposition to an amnesty should be vanquishable. At present, the anti-immigration movement is not particularly powerful, partly because it brings together such diverse people. Greens who fear urban

sprawl sit uneasily alongside right-wingers worried that the national character will change if foreigners are allowed in. Of course, a slump would help the anti-immigrant cause, as it did in the early 1990s when Pat Buchanan ran against Mr Bush's father for the Republican nomination. But the hope remains that an amnesty can be got through Congress while the opposition to it remains relatively weak.

In the long run, the northward march of Mexicans should diminish. The Mexican birth rate has dropped; the population is no longer growing so fast, and fewer youngsters are heading for working age. Mexico's economic prospects are also brighter than they used to be. It remains vastly poorer than the United States, but as the gap diminishes so will the desperation to risk your life for a job up north.

In the long run, the northward march of Mexicans should diminish

Michael Barone, the author of a new book on immigrants, “The New Americans” (Regnery), points to Puerto Rico. In the 1950s, the decade of “West Side Story”, the number of Puerto Ricans in New York rose from 187,000 to 613,000. But, as Puerto Rico's economy grew, migration fell year by year. There have been few new migrants lately, even though Puerto Rico's GDP per head is still only a third of the average American state's.

There remains the objection that making immigration easier for Mexicans is unfair to the other knockers at America's door. But Mexico is a special case. It shares a long border with the United States. Its history is entangled with that of the giant to its north. Most of the illegal arrivals come from Mexico. And , in Mr Fox, Mexico has a leader who wants to sort things out. Here is the place to start.

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The Burmese of Fort Wayne

A long way from Rangoon

Aug 2nd 2001 | FORT WAYNE, INDIANA
From The Economist print edition

A group of fractious exiles dream of leaving a country they never wanted to join

IN AN understated, mid-western way, Fort Wayne is a city that likes to boast. The first jukebox was invented here, the locals are happy to tell you, as was the first washing-machine. The first professional-league baseball game was played here in 1871. More recently, this town of 200,000 has been named All-America City (twice), and, with over 300 houses of worship, the City of Churches.

Fort Wayne has earned another distinction that is less well known. Since 1988, the city has taken in more refugees from Myanmar (once known as Burma) than anywhere else in the United States. Now more than 1,000 strong, the Burmese community is the city's biggest group of immigrants.

The Burmese settled in Fort Wayne for many of the same reasons that other refugees have gone there: willing sponsors (all those churches), plentiful factory jobs, and a low cost of living. The arrivals have included student leaders from the country's ill-fated 1988 democracy movement, as well as two opposition politicians elected to the national legislature in 1990, before the country's military rulers scrubbed the vote.

The politically-minded spend their days working in blue-collar jobs or studying at university. But many of their nights and weekends are devoted to heated discussion of how things are in Myanmar. Since most have not been there for a dozen years, and have little direct communication with the people back home, rumours are rampant and frustration runs deep.

Like other exiles, from some of the early English arrivals to the Miami Cubans, the “88 generation” insist that they never wanted to come to America. After their uprising had been crushed, thousands of young people fled into the jungle along the Thai border, and took up arms alongside local ethnic rebels. They thought they would march triumphantly back into Rangoon, now called Yangon. Instead, they spent years coping with hunger, malaria and land-mines—and squabbling among themselves. Those who eventually decided to seek refuge abroad saw it as a temporary measure. Even now, few have applied for American citizenship.

After the years of hardship and tension in Myanmar, this does not make for a easy life. In Fort Wayne five different political groups promote various solutions to their country's tribulations. The recent reports of secret talks between the Burmese junta and the opposition leader, Aung San Suu Kyi, both excited the Fort Wayne exiles (they might yet go back) and worried them (why weren't they consulted about the talks?).

In a bid to make their voices heard, they organised a conference on Myanmar's “democratic transition” at Indiana University. More than 80 Burmese tried hard to set aside the schisms that date back to their days in the jungle. After a somewhat heated debate, they called both for the formation of a transitional government in Myanmar and for the continuation, until a lasting settlement is achieved, of economic sanctions against the country. The homesick have yet to find their cure.

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The economy

Still scraping the bottom

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From The Economist print edition

The American economy still seems far from recovery

IS THE worst really over? After a year in which the American economy grew by only 1.3% and a quarter where it managed only 0.7% on an annualised basis, that is the perplexing question. Despite six interest-rate cuts—which have lowered short-term rates by 2.75 percentage points—the latest crop of statistics does not look good.

Business investment, which precipitated this slowdown, still seems firmly in the doldrums. In the second quarter firms' capital spending plummeted by an annualised 13.6%, its biggest drop since the 1982 recession. Nor are there many signs of an imminent business recovery. The current crop of profit announcements on Wall Street has been dire. Profits of the S&P 500 firms, excluding technology producers, fell by 7.7% between April and June compared with a year earlier, according to First Call, a firm that surveys financial analysts. Include technology producers and profits fell by 17.3% over the same period. Overall, profits for major firms are forecast to drop by more than 8% this year. At the beginning of the year, the estimates were for a 9% rise.

Orders for durable goods—a somewhat volatile guide to future business investment and manufacturing activity—dropped by 2% in June. New orders for high-tech equipment fell 3.2%; orders for communications equipment alone fell by 20.8%. Published on August 1st, the index of the National Association of Purchasing Management fell to 43.6 in July, showing that manufacturing remains firmly in recession. Though the index has risen from its lows in January, it has been below 50 (which implies declining factory activity) for the past year.

This business slump is not confined to America. The United States has exported its investment bust abroad, helping to bring on a global slowdown (see article). Weak foreign demand and an extraordinarily strong dollar have hurt America's exports. Real exports fell by an annualised 9.9% in the second quarter. In the same period last year, exports rose by an annualised 13.5%.

With business investment and exports negative, the economy was saved from outright contraction in the second quarter by government spending (which grew by a surprisingly large 5.5% at an annual rate), residential construction and, particularly, by consumer demand. Overall consumption grew by an annualised 2.1% between April and June, slower than before, but still positive. A separate report showed that personal consumption rose by 0.4% in June, up slightly from May.

Looking ahead, analysts think government spending may slow during the rest of the year. The housing market looks more optimistic, spurred by lower mortgage rates. New home sales, for instance, rose in June, up 1.7% from May and up by a huge 16.3% from a year ago. Investment in new housing grew by 7.4% at an annual rate in the second quarter. And Americans are busy buying new things for their homes. Furniture and household equipment were the fastest-rising bits of private consumption growth.

This picture—a headlong decline in manufacturing, cushioned by the ever-confident consumer—has continued for six months. The biggest uncertainty also remains the same: will consumption hold up? Pessimists point to weakness in the stockmarket, widespread layoffs and falling consumer confidence. According to the Conference Board, the overall index of consumer confidence fell from its six-month high of 118.9 in June to 116.5 in July. Consumers' faith that the economy is about to rebound may be

weakening.

Optimists, in contrast, point to lower energy prices and the much trumpeted $38 billion of tax rebate cheques as good reasons to expect stronger consumption for the rest of the year. The maximum cheque for a married couple is $600. The economic impact of these recently sent-out gifts will depend on whether, and when, they are spent. According to a recent Gallup poll only 17% of respondents expected to spend their rebate, while over 30% intended to save it. Such figures suggest the economic impact might be small.

On the other side is the sheer addiction to shopping. Although recent statistical revisions have ensured that America's personal saving rate is now positive rather than negative, it is still barely over 1% of disposable income. Economic recovery in the short term depends on that spending urge staying firmly in place. As the Internal Revenue Service's website puts it: “Let's see—new barbecue, early holiday shopping. You get the idea.”

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Government borrowing

Please sir, the dog ate my surplus

Aug 2nd 2001 | WASHINGTON, DC
From The Economist print edition

George Bush's excuses only half wash

THE reversal was startling. In the spring, the Treasury said that it expected to retire $57 billion of public debt between June and September, making this the umpteenth quarter of debt repayment. Now, the Treasury says, it will have to borrow $51 billion, making this the largest quarter for federal borrowing since the start of 1996. The $108 billion difference between the two numbers is one of the largest plunges in the government's fiscal position ever recorded.

In truth, this is just one quarter of the year, and the budget for the year as a whole is still likely to be in surplus. The administration can point to three extenuating circumstances for the quarter's slide. First, $38 billion of it is the cost of the one-off tax rebates being mailed to everyone who paid income tax last year. Second, the administration shifted the date for some corporate income-tax payments from September 15th to October 1st, the first day of the 2002 fiscal year, in order to lessen the impact of next year's cut.

Third, and most important, the slowing economy is reducing tax revenues. Receipts from corporate income tax, for example, were 26% below last year's level in June—the largest year-on-year fall since 1983. The slowing of the economy is hardly the administration's fault, so George Bush can dismiss Democratic jibes about his squandering a vast budget surplus in just seven months.

What Mr Bush cannot do is continue to claim that America can have a tax cut, a budget surplus and big new spending programmes all together. The official figures for this year will still show a surplus of $160 billion; but, if you remove the surpluses for Social Security and Medicare, which the administration is not supposed to touch, it will almost certainly be in deficit. Revealingly, officials now call the Medicare surplus an accounting phenomenon.

Whatever the exact definition of the surplus, it is far too small to finance all the president's projects. Military planners are up in arms (you might say) about the lack of money for new weapons such as an anti-missile shield. Nor will there be money to extend Medicare benefits to cover prescription drugs. Whether or not the budget is in the red, the politics of budget deficits is back.

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Atlanta's mayoral election

Race is a subtler business now

Aug 2nd 2001 | ATLANTA
From The Economist print edition

The race to take over from Bill Campbell

THE next mayor of Atlanta needs to enjoy a challenge. The city's government is bloated, and possibly bankrupt; the police force is under-equipped, underpaid and understaffed; smog is a constant threat from May to October; the city is regularly fined under the Clean Water Act; traffic has swollen to gargantuan proportions; the richest (mainly white) part of the tax base retreated to the suburbs long ago. The city itself only has 416,000 inhabitants, barely one in ten of the people who live in greater Atlanta. Oh, and the city employees, who went on strike in February for pay increases, are spoiling for another fight.

The election is set for November 6th. Bill Campbell, the current Democratic mayor, is ineligible for re-election after two terms. He can point to eight years of steady growth, the (largely) successful hosting of the 1996 Olympic Games and a new terminal at the bustling airport.

But Mr Campbell leaves office with clouds over his head. Federal prosecutors are investigating accusations that he accepted undisclosed speaking fees and trips from companies with city contracts. And he is barely on speaking terms with Atlanta's business establishment, much of which has retreated to the northern suburbs of Buckhead and Alpharetta.

All three mayoral candidates are promising to restore integrity to city government. Like Mr Campbell (and every Atlanta mayor since 1973), all are black. Although all three are running as independents, they are essentially Democrats.

The outsider, Gloria Bromell-Tinubu, an economics professor at Spelman College, has a leftish platform, built around such things as cheaper housing; but she lacks cash. Robb Pitts, the current president of the City Council, is more business-minded. He supports privatising city services (Mr Campbell supervised the privatisation of water services in 1998, with mixed results) and wants to bring in a “chief operating officer” from the private sector. In the middle sits the fund-raising front-runner, Shirley Franklin. She has never been elected to public office, but she is very much part of the city's political upper class, having worked for two mayors, Maynard Jackson and Andrew Young.

So far the campaign has failed to catch fire. One reason is uncertainty over the investigation of Mr Campbell, who still commands the loyalty of many black voters. But the larger reason is that politics in Atlanta is becoming more complex.

Since the election of Mr Jackson, the city's first black mayor, in 1973, power in Atlanta has been largely a matter of backroom deals between black politicians and white businessmen. The latter control the money, the former the votes. Atlanta itself has a black majority, and despite being the city supposedly “too busy to hate”, race has been prominent in its elections. When Mr Young ran for office in 1981 against a white opponent, Mr Jackson declared that only “negroes...shuffling and grinning” would turn against Mr Young.

Now racial politics is becoming a subtler game. Much of the growth in greater Atlanta's population has come from immigration. Latinos, whose number has tripled in the past decade, now account for one in 20 of the city's inhabitants. The old split between black downtown and white suburbs is also changing. Middle-class blacks are flocking to suburbs like south DeKalb County. Whites, particularly young single ones, are moving back into the centre of the city (see table).

On housing issues, the next mayor will have to balance the concerns of younger white newcomers, older black residents and ambitious Latino immigrants. Taking the pulse of the business community no longer just means dropping in on Coca-Cola; the mayor now has to talk to the increasingly prominent Hispanic Chamber of Commerce.

This helps to explain why all three candidates have so far avoided fiery rhetoric and emphasised their broad bases of support. But the chances are that sooner or later they will break cover and start squabbling fiercely over the black vote. The City Council recently approved a new electoral map that appeared to be gerrymandered to make sure that black districts stayed that way. This redistricting now awaits approval from the Justice Department. The next three months will be fractious.

Changing colour

Atlanta population

City

	1990	2000	% change
Black	264,262	255,689	-3.2
White	122,327	138,352	13.1
Latino	7,500	18,700	149.3

Metropolitan area

	1990	2000	% change
Black	746,919	1,189,179	59.2
White	2,134,425	2,589,888	21.3
Latino	62,000	263,000	324.1

Source: Census Bureau

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The navy's troubles

Out, says Vieques

Aug 2nd 2001
From The Economist print edition

A small Puerto Rican island doesn't want warships practising on it

IT IS now official: the people of Vieques do not like the American navy. This may not seem entirely surprising. The navy has bombarded, invaded and generally assaulted the eastern tip of this tiny Puerto Rican island for much of the past 60 years. On July 29th, its voters had their say, and 68% of them asked the navy to leave.

This local referendum, however, is not legally binding, and the navy is unmoved. The island offers ideal conditions for simultaneous land, sea and air exercises. Away from commercial airline routes and shipping lanes, it is surrounded by deep water—which comes in handy when big warships need to fire at targets on land—and has beaches on which the soldiers can rehearse storming ashore. So training will go on as planned, with a ten-day naval exercise starting on August 2nd.

Most of the people who live on Vieques claim this is bad for the island's environment, and for their own health. In 1999, an off-target bomb killed a civilian security guard. Nor are the navy's exercises good for tourism. Navy-owned land—two-thirds of the island until last May—is off-limits to unauthorised persons. Although the navy has now returned 8,000 acres (32 square kilometres) in the western part of Vieques, there is a lot of cleaning up to do before tourists can stroll through it without tripping over unexploded munitions.

Fishing, which supports a substantial part of the island's population, has also suffered. This year's federal budget includes a $40m aid package for Vieques, but for many residents this is too little, too late.

In June, George Bush said that the navy would cease fire, and leave Vieques in 2003. Another referendum—organised by the federal government, and binding—has been scheduled for November. On August 1st the House Armed Services Committee defiantly voted to cancel it. Even if it goes ahead, the referendum seems not to allow for a change of the 2003 departure date.

The fundamental question, some say, is whether modern navies need to do this sort of training at all. Eugene Carroll, a retired admiral who is now vice-president of the Centre for Defence Information, a Washington think-tank, believes that the idea of putting ashore large numbers of troops under protective fire from warships is a relic of the second world war, and now irrelevant. The Americans' last big amphibious operation dates back to 1950, in the Korean war. In today's conditions, Admiral Carroll argues, this sort of assault from the sea would be horribly costly.

The navy's supporters reply that there could well be wars in which it will need to put ashore in the face of determined opposition the heavy tanks and guns that cannot be carried in aircraft; otherwise the poor bloody infantry will be overwhelmed. If Vieques will not allow it to practise, somewhere else will have to.

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Copyright law

But Dmitry did no wrong

Aug 2nd 2001 | SAN FRANCISCO
From The Economist print edition

A clumsy law lands a Russian programmer in an American jail

BEARDS drooping in the summer fog, 150 computer programmers took to the streets in San Francisco on July 30th to make a protest outside the federal court building. They were rallying in support of Dmitry Sklyarov, a Russian programmer arrested by the FBI on July 16th after he delivered a paper at a computer conference in Las Vegas.

Mr Sklyarov was arrested under the Digital Millennium Copyright Act (DMCA), a 1998 law which bans technologies designed to defeat software that protects copyrighted material. Mr Sklyarov, working in Russia, where, as in most countries, such things are not illegal, had written a program that circumvented some of the limits on eBook Reader, a piece of software for displaying books on computer screens made by Adobe Systems, a Silicon Valley firm. His talk in Las Vegas was about the weaknesses in Adobe's software that made such tricks possible.

AP

Dmitry's army on the march

Mr Sklyarov did not himself make or distribute any illegal copies of electronic books, the kind of activity forbidden by copyright law; nor did ElcomSoft, the firm he worked for. But the DMCA makes it a crime merely to create the tools that can violate copyright—even if those tools have other, legitimate uses (such as the making of a copy of a book by its owner for his own “fair use”). Since Adobe in America was able to buy a copy of the program from ElcomSoft over the Internet, it could argue that the software came under American law, and keep an eye out for the arrival of Mr Sklyarov on American shores.

Programmers have been getting steadily more angry at the deadening effect of the DMCA on academic discussions of encryption and research into computer security. Edward Felten, a computer scientist at Princeton, withdrew a paper on weaknesses in encryption systems for digital music after lawyers for the Recording Industry Association of America sent him a warning letter.

Mr Felten has challenged the constitutionality of the DMCA with a lawsuit that will be heard later this year. Also working its way through the courts is an appeal against a judgment in favour of the Motion Picture Association of America that *2600*, a journal for hackers, could not publish code that allows people to break the encryption systems of digital video discs.

Mr Sklyarov's arrest proved a flashpoint, and it set off such a storm of protest that a week later Adobe changed its mind and called on the FBI to release him. Firms may be more susceptible to such public

pressure than the government. The federal attorney's office has said that it intends to pursue the prosecution, and support for the DMCA is strong in Congress, where the entertainment industry has lobbied hard. Predictably, at www.freesklyarov.org, the schedule for more protests is getting longer. And rightly so.

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Lexington

The unelectable Mr Ryan

Aug 2nd 2001
From The Economist print edition

Crossing the line in American politics

THE governor of Illinois, George Ryan, has done some striking things. A pro-death-penalty Republican, this avuncular former chemist drew international attention when he declared a moratorium on executions in his state because he thought the process “fraught with error”. Just as unpredictably, he became the first American state governor to visit Castro's Cuba, all but thumbing his nose at America's embargo of the island. At home, he has pushed a $12-billion transport-infrastructure package through the state legislature, as well as a new stadium deal for Chicago's football team and many smaller bills that had been bottled up for years. Most recently, he has helped the Windy City to its greatest corporate triumph in living memory by luring Boeing to Chicago from its ancestral perch in Seattle.

And yet Mr Ryan stands as much chance of getting re-elected as the Cubs stand of winning the World Series (which, as any hardened Chicagoan will tell you, is zero, their current position in the league notwithstanding). The most recent poll by the *Chicago Tribune* and WGN-TV shows that only one in five likely Illinois voters would support the governor for a second term. A whopping 61% feel he does not deserve four more years. And his party's base has deserted him: roughly 60% of voters who describe themselves as “very conservative” feel that Mr Ryan does not deserve a second term. The governor will say whether he wants to run again on August 8th, but already a string of local Republicans have either advised him not to seek re-election, or, helpfully, declared themselves available for the job.

How could a governor who has stacked up those legislative accomplishments at home and won unexpected praise abroad come to be so disliked, particularly at a time when the Illinois economy has generally been doing pretty well? Why are this swing state's Republicans so keen to oust their leader? Mr Ryan's story is a parable about the limits of American politics—and the peril of being just on the wrong side of the line of acceptability.

Grades of sinning

Begin with those angry conservative Republicans. Here Mr Ryan has given offence by the frequency of his sins rather than their gravity. As most local conservatives will readily concede (at least if none of their

fellow believers is listening), Illinois is no hotbed of political extremism. It went heavily for the Democrat Al Gore in last year's presidential election. It has had a lot of moderate Republican governors. The Chicago suburbs are full of “soccer moms” who lean towards the Republicans but are fairly liberal on social issues. So the affable Mr Ryan was always expected to hold on to the political centre. Among Republican governors, he is in this respect rather like Tommy Thompson in Wisconsin (who spent money on transport projects and approved embryo research) and George Voinovich in Ohio (who raised taxes and even earned an endorsement from the teachers' unions when he subsequently ran for the Senate).

Yet, for many Illinois conservatives, Mr Ryan has turned his back on his party once too often. The death-penalty moratorium (which caused Italians in Rome to light candles in tribute), a slight change of heart on abortion (he vetoed a bill that would have banned public money for abortions in Illinois), a tax increase to pay for his new roads and bridges, a photo opportunity with Fidel Castro: the general feeling is that the state's Republicans could have swallowed two or three of these, but all of them together was a bit too much. He crossed the line that Messrs Voinovich and Thompson only edged up to.

On Mr Ryan's bigger challenge—the transport scandal that has shadowed his governorship—his problem is the other way round: his offence is not one of frequency, but of gravity. By the admittedly unhygienic standards of Illinois politics, Mr Ryan is not seen as a particularly dirty politician. This is a state where tales of graft in Springfield, the state capital, are lovingly told and re-told; where the local wheeler-dealer, Dan Rostenkowski, the once all-powerful speaker of the House who then spent some time in a federal prison, regularly receives standing ovations; where it is still, for many, a proud memory that Chicago's then mayor, Richard J. Daley, stole the 1960 presidential election from Richard Nixon by finding thousands of votes for Jack Kennedy.

Mr Ryan, despite a long career in politics, had avoided such shenanigans. His downfall has come from an alleged but as yet unproven connection to a smallish-looking scam with a catastrophic consequence. Not long before he was elected, when he was the Illinois secretary of state, it emerged that employees in his office had been selling commercial drivers' licences to unqualified lorry drivers. Some $170,000 of the bribes turned up in Mr Ryan's campaign coffers. The money might have been survivable; but the fact that the drivers were unqualified turned out to be deadly. In the best-known episode, one illegally licensed driver was involved in a fiery wreck that killed six children.

Those dead children were enough to inflict the fatal wound. It scarcely matters that Mr Ryan has not been directly linked to the scandal (though 30 former employees in the secretary of state's office have been convicted, including the man Mr Ryan appointed to root out corruption in the office). The continuing investigation, Operation Safe Road, bursts into the headlines every time there is a new arrest, indictment or conviction—and each time the pictures of the children reappear, Mr Ryan's chances of re-election recede still further.

In a country where political redemption is something of a religion, Mr Ryan stands out. He crossed the line. The irony is that doing so may well have helped to make him a better governor. The near-impossibility of his re-election may have given him the courage to make unpopular moves. The pity is that it takes an experience like this to persuade a practised politician to cross the most important line in politics: the one which divides pursuing the common good from pursuing your own self-interest.

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The drug war

Trouble for Plan Colombia

Aug 2nd 2001 | BOGOTA
From The Economist print edition

AP

Opposition mounts to the aerial spraying of coca fields

THE crop-dusting planes of the Colombian police were back in the air this week, dumping clouds of weedkiller on drug crops, after a judge softened a ban that had grounded the flights for several days. But among both Colombian and American politicians opposition is growing to the controversial crop-spraying programme—the central pillar of Plan Colombia, an attempt, backed by the United States, to tackle drugs and guerrillas.

On July 27th the judge had found in favour of a group of Amazonian Indians, who argued that the government had not given enough study to the impact of the weedkiller on health and the environment, and that they had not been consulted before the spraying began. This week the judge clarified his ruling, saying that it applied only to “indigenous reserves” in the Amazon region. The police say they will carry on spraying everywhere else. The crop-dusters are currently concentrating on some 14,000 hectares (35,000 acres) of coca in the departments of Nariño and Cauca.

Officials insist that because of the scale of Colombia's coca crop, and because some of it is in guerrilla areas, aerial spraying is the only way to eradicate it. Coca eradication, along with police action against drug-processing laboratories and development programmes for alternative crops, lies at the heart of the increasingly elaborate American effort to cut the flow of cocaine from Colombia to the United States. As part of $1.3 billion in mainly military aid approved last year, the United States is providing the Colombian police with more crop-dusters and helicopters for a stepped-up eradication campaign. This has seen 52,000 hectares sprayed since December, half of them in Putumayo.

Opponents claim that the spraying damages food crops and human health. American and Colombian officials insist that Roundup, the glyphosate-based weedkiller made by Monsanto that they spray, is harmless and is widely used on American farms. But there have been no studies of its effect when applied from the air in concentrated form in the tropics. Colombia's human-rights ombudsman claims that additives in Roundup designed to make it stick to plants are damaging to health. They include polyoxyethyleneamines, which irritate the respiratory tract, eyes and skin, and a byproduct, dioxane, a suspected carcinogen.

As well as the ombudsman, opponents of spraying include the elected governors of six southern departments where much of

the coca and opium poppies are grown. This week some of them lobbied the United States Congress, which is currently considering a request for a further $676m in anti-drug aid to Colombia and its neighbours. The Bogota office of the UN Drug-Control Programme recently called for international monitoring of the spraying.

A second objection to the spraying programme is that as long as demand for cocaine remains strong, eradication will be ineffective. Indeed, critics say that it encourages coca farmers to move into remote jungle, and to plant twice as much, as an insurance policy. Anne Patterson, the United States' ambassador in Bogota, recently admitted that coca cultivation in Colombia has been rising, despite the eradication campaign. According to the Americans' latest estimate, there were 136,200 hectares of coca in Colombia last December, up from 122,500 a year before, although 58,000 hectares were eradicated in that period. Mrs Patterson also said that coca had appeared for the first time in the departments of Arauca and Vichada.

Like first-world-war generals, the drug warriors' response to setbacks has typically been to throw more resources into the breach. The police crop-duster fleet is due to expand from 12 to 26 aircraft over the next nine months. Mrs Patterson says that the spraying programme is only now getting up to full speed and that Plan Colombia will stem the rise in coca cultivation within 18 months. Maybe, but American officials have been chasing the mirage of victory in the Andean coca war for two decades now.

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Drugs in Canada

Gone to pot

Aug 2nd 2001
From The Economist print edition

The pressure for more relaxed marijuana laws is growing

Get article background

MANY Canadians have often wondered if the grass is greener south of the border. But now, thanks to new federal rules that came into force on July 30th, it is easier to get the stuff at home: the change allows marijuana to be used for medical purposes. Only those suffering from terminal illnesses, or from diseases such as multiple sclerosis and epilepsy, may apply. But the new rules are a sign of a wider shift in Canadian attitudes to drugs.

Other countries, such as the Netherlands, Spain and Italy, have decriminalised possession of marijuana for recreational use. What is unusual about Canada's action is that the government itself is gearing up to supply patients and researchers. Under a federal contract, a private company is growing quality-controlled weed in a disused mineshaft in Manitoba.

That is in stark contrast to the United States, where the Supreme Court recently scuppered moves by a dozen states to legalise the medical use of marijuana. Ethan Nadelmann of the Lindesmith Centre, a drug-policy think-tank in New York, argues that Canada is moving away from a hardline American-style “war on drugs” towards European-style “harm reduction”. Vancouver, for example, is debating whether to establish heroin clinics and safe-injection sites. And in practice police in British Columbia are turning a blind eye to possession of small quantities of weed.

Not enough, argues Eugene Oscapella of the Canadian Foundation for Drug Policy, a lobby group for reform. Under the new rules, to get marijuana patients will need a declaration from at least one doctor, if not two—and the Canadian Medical Association has expressed strong reservations about the new policy. In opinion polls, around half of those surveyed now support the decriminalisation of marijuana, or minimal fines for its possession. So does Joe Clark, the leader of the Progressive Conservatives. Even Stockwell Day, the Bible-thumping leader of the right-wing Canadian Alliance, has admitted to smoking the drug in his youth.

More change may be on the way. Later this year Canada's Supreme Court will consider a challenge to the law banning marijuana. The Senate, the House of Commons and the auditor-general are all studying drug policy. Meanwhile, Canadians keep on puffing; almost two-fifths of those polled in June admitted to having taken marijuana at least once.

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Presidential prospects in Peru

Starting again

Aug 2nd 2001 | LIMA
From The Economist print edition

Alejandro Toledo has promised a war on poverty

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AP

But will the Apus prove fickle?

HE DOES not lack well-wishers, some of them, it seems, divine. A day after being sworn in as Peru's new president with a dozen Latin American heads of state in attendance, Alejandro Toledo flew to the Inca citadel of Machu Picchu “to give thanks for the force and courage that the Apus [mountain gods] and the earth gave me.” Mr Toledo, an American-educated economist and the first Peruvian of Andean Indian descent to be elected president, will need all the help he can get.

Peru has made a welcome return to democracy, at last shutting the door on a decade of authoritarian rule by Alberto Fujimori, whose regime collapsed chaotically last year. But Mr Toledo inherits a shrinking economy, widespread poverty, and what he called “the veil of corruption and lies” cast by his predecessor.

Mr Toledo has placed economic policy in the hands of liberal technocrats. Pedro Pablo Kuczynski, the economy minister, is an experienced investment banker. Roberto Dañino, a surprise choice as prime minister, has spent the past dozen years as a corporate lawyer in Washington. The president said he wants a market economy, but one “with a human face”; he has given social ministries to moderate left-wingers. The defence and interior ministries, run by army generals under Mr Fujimori, have returned to civilian hands. Other appointments have the look of political expediency: Fernando Olivera, the new justice minister, is a maverick anti-corruption campaigner but heads a small party whose votes are needed in Congress.

The government's chief task, promised Mr Toledo, would be an “all-out war on poverty”. Over half of Peruvians are poor; only a minority hold proper jobs. With the political outlook now more settled, the economy is poised for growth, according to Mr Kuczynski. But he faces a tricky balancing act. For the third year running, Peru is set to overshoot its fiscal-deficit target agreed on with the IMF. And Mr Toledo has made some expensive promises, such as raising teachers' wages and setting up an emergency social programme, to make work for 400,000 people. Already Mr Kuczynski has said a promised cut in sales tax will be delayed to January.

Mr Kuczynski's plan is for a swift bundle of confidence-boosting measures. These may include speedier privatisations. But selling the largest among the state's remaining assets, such as the Lima water company, would be unpopular.

The difficulty for Mr Toledo will be to cope with mounting public impatience for economic improvement. Mr Fujimori kept social protest in check through police repression, the bribing and co-option of grassroots leaders, and free handouts. Discontent may now boil over.

Congress, too, will be a battleground for Mr Toledo. His party has only 45 of the 120 seats; Mr Olivera, in theory, commands another 11. The president has made overtures to the populist APRA and the conservative National Unity parties, but both are likely to prefer opposition.

Mr Toledo also faces the task of restoring public confidence in government and politics, debauched by Mr Fujimori and Vladimiro Montesinos, his jailed intelligence chief. Prosecutors investigating the pair believe that they and their acolytes may have amassed up to $2 billion, much of it stolen from the state's

coffers. Mr Montesinos has threatened damaging revelations that could even discredit members of the new government. The investigations are likely to last for years—and so, too, will Peru's campaign to extradite Mr Fujimori from Japan. Both are necessary, but have the potential to create tension.

Mr Toledo has already shown indecision; he delayed his cabinet appointments to the last minute, for example. But he has not made any big mistakes. The transition to democracy has gone remarkably smoothly, thanks to the quiet competence of the caretaker government that has ruled since Mr Fujimori's exit. Now it is up to Mr Toledo to deliver economic growth, political stability and democratic reform. Whatever they think of him, most Peruvians are willing him to succeed.

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Tony Blair in Latin America

Crying for Argentina—and farm trade

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Reforged alliances for new battles

FOR its own commercial reasons, Britain did more than any other outside power to help the Latin American republics obtain independence. Yet while the leaders of France, Germany, Italy and Spain make regular trips to the region, as now do American presidents, no British prime minister had made a purely bilateral visit to Latin America until Tony Blair did so this week.

Such neglect is odd. Those Europeans who claim to be close political friends of Latin America also run the governments most wedded to protecting their farmers. Mr Blair, by contrast, offered fulsome support to Brazil and Argentina in their demands for free farm trade, both in the trade talks between the European Union and Mercosur and at the WTO.

President Fernando Henrique Cardoso of Brazil claims to be a fellow exponent of Mr Blair's “third way”, as does his Argentine counterpart, Fernando de la Rua. Mr Blair indicated that he saw both men as allies in a worldwide campaign against anti-globalisation protesters. Brazilian spin-doctors responded by praising Mr Blair as their most important foreign visitor this year.

The prime minister was also warmly received in a brief foray across the Iguazu falls to Argentina, with which Britain fought a war two decades ago over the Falklands. He and Mr de la Rua had agreed not to discuss the islands; for the past decade, Argentina's policy has been to pursue the dispute diplomatically, ruling out another invasion.

Argentina faces a more immediate battle—over the economy. This week the country's Senate approved Mr de la Rua's austerity plan, and the government bought back short-term debt coming due this year. Even so, recent falls in bank deposits and tax revenues have spooked investors, who worry that Argentina is heading for a debt default. Overnight interest rates soared to 35%, and Argentine securities plunged.

Mr Blair duly offered expressions of sympathy for Mr de la Rua's efforts, before flying on to Mexico, where his family will join him for a holiday. If the prime minister gets his way on farm trade, he will indeed have laid the basis for a renewed alliance.

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NAFTA

No truck with free trade

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Only the truckers gain from an illegal ban on Mexican lorries

AMERICANS can breathe easy. They are being saved from an invasion of millions of dirty, dangerous, recklessly driven trucks swarming across from Mexico. So the International Brotherhood of Teamsters would have them believe. In June, at the Teamsters' urging, the House of Representatives voted to keep a ban that forbids Mexican trucks from going more than 20 miles (32km) over the frontier. This week the Senate approved tough new safety standards as a condition for allowing Mexican trucks beyond the border zone.

Mexico has long complained that the 20-mile limit is illegal under the North American Free-Trade Agreement (NAFTA). Trucks from Canada, the third NAFTA member, are allowed to roam freely across the United States. In February a NAFTA arbitration panel upheld Mexico's complaint, and President George Bush promised to end the ban by January 2002. The House and Senate decisions may delay that for years more, though Mr Bush has vowed to fight them.

The Teamsters claim that Mexican drivers have less training, their criminal and driving records are not computerised and available to American authorities, and they represent cheap labour that will steal American truckers' jobs. The union's website cites a study by the General Accounting Office (GAO) that found that less than 1% of the 3.3m trucks crossing into the United States from Mexico each year are inspected. “Nearly half of those checked are put out of service because of safety concerns,” says the union.

Alarming, effective—and misleading. The GAO study dates from 1996, when 45% of inspected Mexican trucks failed a safety test. But 28% of American trucks did so too. In 2000, according to a Department of Transportation report published last May, the Mexican score had fallen to 36%, against 24% for American trucks. Even something as trivial as a broken tail light can mean failure. The newer study also found that more frequent checks raised standards. In Texas 40% of Mexican trucks failed. In California, which has the border's only two permanent inspection stations, the rate was 26%—similar to the average for American trucks.

Because of the 20-mile limit, most of the Mexican trucks checked are short-hop rigs that pick up a load on the Mexican side and bring it across for an American rig to take onwards. “The irony of this system is that it increases the economic incentive to use less-safe trucks,” argues Jim Gerber, an economist at San Diego State University. A company will not use its best vehicles for short trips with long customs delays, but keep them for the long haul. That is backed up by another Department of Transportation study, in 1999, of 500 Mexican trucks caught going deeper into the United States. Only 30% of them failed the test, little worse than the American average.

The fear of lost jobs is also exaggerated. According to Manuel Gomez, president of Mexico's road-freight industry body, Canacar, there are 375,000 trucks in Mexico and some 7m in the United States. Only the bigger Mexican firms with modern vehicles and well-trained drivers can compete with American firms and meet American safety standards.

In fact, Canacar is more scared than the Teamsters. It worries that its firms would be unable to compete across an open border; American firms, it says, are already buying stakes in Mexican ones. Congress's defiance of the NAFTA ruling is a godsend to Canacar. “The border must be completely closed to American trucks and investments in Mexican [haulage] firms,” says Mr Gomez.

Mexico's government seems divided on the issue. “It's not a matter of life and death for Mexico. There's no consensus domestically on whether we should open up or not,” says Jorge Castañeda, the foreign

minister. But Luis Ernesto Derbez, the economy minister, has vowed to stand up for Mexico's NAFTA rights. His ministry estimates that the ban has cost Mexico $2 billion since 1994. For now, though, he has pronounced himself “satisified” with Mr Bush's rather futile efforts to end the ban. How long he remains so will show how seriously he takes the issue.

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Indonesia

Golkar plots its comeback

Aug 2nd 2001 | JAKARTA
From The Economist print edition

The party of Suharto still wields lots of power—and it wants more

Get article background

TO ALL appearances, Golkar, the party set up as a vehicle for the New Order of Indonesia's dictatorial ex-President Suharto, is politically dead and buried, condemned by its ugly past. In the general election in 1999, the first after Mr Suharto's downfall, its share of elected members of parliament fell from 76% to 26%, and its rivals refused to back its candidate—B.J. Habibie—for the presidency.

The man who won that contest, Abdurrahman Wahid, continued to exploit Golkar's infamy during this year's impeachment battle, calling for its dissolution while his supporters burned Golkar offices in East Java. And after Mr Wahid gave way to Megawati Sukarnoputri last week, Golkar's leader, Akbar Tandjung, lost badly in the vote to choose a successor for the vacated vice-presidency. Why, then, do Golkar's enemies still fear that it may yet rise from the grave to haunt them?

These worries are understandable. Indonesians may feel proud that for the first time since the turbulent 1950s, their country enjoys real competitive politics, unlike most of its neighbours. But there is a new risk: politics in Indonesia may come to resemble those of another Asian nation, to which it is rarely compared—Japan.

Golkar's leaders excel at discreetly derailing plans they dislike

After holding power throughout the post-war period, Japan's Liberal Democratic Party lost office in the mid-1990s, only to regain it almost at once. Like the LDP, Golkar retains strong links to the bureaucracy, to powerful businessmen and to other conservative groups, including elements of the army. Its leaders excel at discreetly derailing plans they dislike. They also know how to muster votes in distant provinces; Golkar remains the best-organised of Indonesia's parties. So the return of a superficially-reformed Golkar remains a real possibility.

The party is divided, however, over how and when to resurrect itself. Golkar members in Jakarta and the rest of western Indonesia would prefer to rebuild the party's image slowly and stealthily, recognising that a period of purdah must be endured before it can hope to return to power. Although they weaken their rivals where possible, and defend their financial and political links, they try to make their criticism seem constructive. This bide-our-time approach helped Golkar to frustrate Mr Wahid's efforts at reform, while others led the drive for his impeachment.

Now that Mr Wahid has failed, however, the other Golkar faction, strong in the eastern provinces, wants

the party to be more aggressive. Despite protests from the western members, this Iramasuka faction—its name comes from the first few letters of each eastern island group—forced the party to nominate Mr Tandjung, who is parliament's speaker, for the vice-presidential race. Syamsul Muarif, who oversees Golkar's troops in parliament, claims that Mr Tandjung agreed to run only when the Iramasuka faction threatened to name its own candidate.

No doubt, a few of the eastern members were setting Mr Tandjung up: they still blame him for undermining Mr Habibie, who is from the eastern province of South Sulawesi. More seriously, however, the rift reflects the different interests of the two factions. In western Indonesia, Golkar faces fierce competition, and must vie for support from urban voters in Jakarta and several other cities. Golkar's eastern members of parliament, by contrast, receive a bigger boost from the party's national infrastructure, and face relatively less competition. Since their seats are more secure, they are more willing to declare Golkar already reformed, and to start tossing its weight around again.

Golkar is fortunate that Mr Tandjung lost. With control of the vice-presidency, Golkar would have been blamed for any of the new government's failures. Now it is in the same position it occupied under Mr Wahid: it will control several ministries, but will often act as the parliamentary opposition as well. Indeed, although Miss Megawati had yet to name her cabinet by mid-week, Golkar was hoping to make a strong showing, under a scheme agreed to before Mr Wahid's dismissal. Such a taste for collusion, shared by all of Indonesia's main parties, continues to frustrate reformers. Yet a more confident Golkar could yet become the party most likely to engage in political competition.

How might that happen? For a start, Golkar will try to show off its legislative experience by offering alternatives to many bills. Sometimes it may do so constructively: some of its people have good ideas about the budget, regional autonomy, regulation and much else. Moreover, a few Golkar cabinet members may even begin behaving themselves now that the conservative and popular Miss Megawati has taken over from the reformist and enfeebled Mr Wahid.

Most importantly, Golkar will now become the leading proponent of something that Indonesia badly needs: constitutional reform. First, it will push for direct presidential elections, which the cautious Miss Megawati, as the front-runner under the current system, is expected to continue to oppose. Since it is still the only genuinely national party, with decent candidates in every district, Golkar will also push for members to be elected to parliament by constituencies. Under the current mixed system, Jakarta-based elites dominate and accountability is low.

Of course, Golkar is still far from trustworthy, as Mr Wahid discovered too late, and its continuing clout will rightly make many reformers nervous. But in at least a couple of areas Indonesia may actually benefit if the party of Suharto starts to get its way.

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Hong Kong and China

One country, how many systems?

Aug 2nd 2001 | HONG KONG
From The Economist print edition

Relations between Beijing and Hong Kong are being tested

AP

At least justice is colour-blind

EVEN as Li Shaomin flew into Hong Kong from America this week, senior officials in the territory were still agonising over whether they should let him in. Less than a week earlier, Mr Li had been convicted by a court in China of spying for Taiwan and had been deported to the United States, of which he is a citizen. His arrival in Hong Kong, where he lives, was being touted by Hong Kong's media as one of the biggest tests since the end of British rule in 1997 of the “one country, two systems” principle by which the territory is now ruled.

Mr Li was eventually allowed to enter, after being detained for some five hours at the airport. It appeared to have been a close call. Could a man deported for spying return to the territory of the country whose secrets he had allegedly tried to steal? Some of China's supporters in Hong Kong, including newspapers loosely under Beijing's control, argued that Mr Li should not be allowed to return to the territory, where he works as an associate professor. Hong Kong and the mainland may have different legal systems, they said, but the “one country” idea should prevail in matters relating to state security.

Hong Kong officials insist they were not under any pressure from Beijing. But a senior civil servant who asked to remain anonymous admitted it was “a highly sensitive issue”. Ever indecisive, Hong Kong's chief executive, Tung Chee-hwa, apparently waited until Mr Li was on the ground before making up his mind.

It is possible that despite the concerns of his officials and the protestations of some pro-Beijing figures, Mr Tung sensed that China would not seriously object to the academic's return. Mr Li's conviction and deportation from China, after all, could well have been as much if not more to do with diplomatic manoeuvring between China and the United States as with any perceived threat to national security. No one has publicly suggested that Mr Li had anything more than “internal” publications about Taiwan of a kind commonly circulating among Chinese scholars.

“One country, two systems” has been through some trying times lately

But even if so, “one country, two systems” has been through trying times lately. Ten days before Mr Li's return, a ruling by Hong Kong's Court of Final Appeal in effect granted right of abode in the territory to more than 2,200 children born in Hong Kong to parents from the mainland. China was incensed. A Chinese spokesman said the ruling appeared to go against a judgment on the right of abode made by the National People's Congress in 1999. Both China and the Hong Kong government are fearful that any easing of residency restrictions might unleash a potentially destabilising flood of immigrants into the territory.

Many in Hong Kong and abroad had attacked the 1999 judgment as a breach of Hong Kong's promised “high degree of autonomy” under Chinese rule. This time there were again concerns that the Hong Kong government would invite the NPC to overrule the Court of Final Appeal. But Mr Tung held his ground in the face of Beijing's mutterings. Again, as with the case of Mr Li, he probably calculated that Beijing would in the end understand the need to avoid causing further damage to Hong Kong's image. Hong Kong recently launched a campaign to promote itself as “Asia's world city” to ensure that investment continues flowing into its struggling economy. Image matters to Mr Tung.

One recent tactical error was his government's decision to propose legislation–eventually passed on July 11th after furious debate in the legislature—which included a clause saying that China had the power to

sack Hong Kong's chief executive; this had been unclear before. Pro-democracy politicians accused Mr Tung of eroding Hong Kong's autonomy. Hackles were also raised by Mr Tung's harsh description of the Falun Gong spiritual movement as an “evil cult” and his decision to order officials to study anti-cult laws in other countries. But officials privately suggest this is little more than ritualistic denunciation aimed at easing Beijing's paranoia. “We are dealing with the Falun Gong by not dealing with the Falun Gong,” Hong Kong's top civil servant, Donald Tsang, remarked in June.

Even Martin Lee, the leader of Hong Kong's Democratic Party and one of the government's most strident critics, admits that despite the occasional setback Hong Kong enjoys much the same freedoms that it did under the British. He puts this down not to Mr Tung's skills but to what he says is the Chinese leadership's sense of self-confidence. “What if they don't feel confident any more?” he says. “We are at the mercy of Beijing through the chief puppet [Mr Tung]. That is the worrying thing”.

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Taiwan

Politics turns nasty

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Reuters

Taiwan is increasingly divided about reunification

HAVING ruled the island with an iron grip for 50 years before losing a presidential election last year, the venerable Kuomintang (KMT) these days seems to be falling apart in all directions, threatening Taiwan with a drift towards dangerous extremism. The first split came last year. James Soong, a former KMT secretary-general who favours reunification with China, was expelled from the party for making an independent bid for the presidency. That cost the KMT the election. Mr Soong set up the People First Party (PFP), and took a swathe of KMT support with him.

This week another crack opened. On July 31st the Taiwan Solidarity Union (TSU) was registered. The new party, which threatens to collar a lot of former KMT support, backs a “two-states” model for cross-strait relations—short of full independence but not by much.

This issue has long divided the KMT. To begin with, the party was dominated by Chinese nationalists—exiles who had fled the mainland in 1949 with Chiang Kai-shek, most of whom cherished the goal of eventual reunification. Then, in 1988, Lee Teng-hui, a native Taiwanese, became chairman of the KMT and president of Taiwan. Mr Lee believed that Taiwan's people should decide their own affairs. His obvious lack of enthusiasm for reunification was what prompted Mr Soong to defect.

Mr Lee stepped down as leader last year to take responsibility for a humiliating defeat in the election. He was replaced by Lien Chan, the inept candidate whose fault the defeat really was. In the past year Mr Lien has reversed all Mr Lee's “Taiwan first” policies. He has opened party-to-party talks with China's Communists and advocated unification by confederation.

Mr Lee, furious at the dismantling of his legacy, has blessed the TSU and agreed to be its “spiritual head”. A close aide, Huang Chu-wen, will be the party chairman. The TSU aims to win enough seats in the election due in December to go into coalition with the governing Democratic Progressive Party led by President Chen Shui-bian, which shares its views about the mainland. Mr Lee hopes thereby to wrest control of the legislature from the pro-China PFP and KMT, which together hold two-thirds of the chamber's seats and have frustrated the government's agenda for the past year.

This could make for an ugly election. The parties' differences correspond to the island's split between natives and mainlanders. The poll could become a quasi-referendum on unification. The most ardent pro-China “patriots” could come to blows with those they see as traitors, and China will be sure to rattle sabres.

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India

The virtues of resignation

Aug 2nd 2001
From The Economist print edition

India's prime minister confronts his many critics

ONE can hardly blame Atal Behari Vajpayee, India's prime minister, for wanting to give up. The economy is sluggish, the recent summit with Pakistan failed to produce a breakthrough and India's biggest savings scheme has all but collapsed. An attempt to widen a ceasefire with one group of separatists in the north-east has foundered on violent opposition from other north-easterners. Mr Vajpayee's government has been pilloried for all this not just by the opposition but by members of his fractious 19-party coalition, including voices within his own Bharatiya Janata Party (BJP). On July 31st he stunned them by offering to resign at a meeting of BJP members of Parliament.

He relented just as suddenly. “Party members in one voice said that Vajpayee could not be allowed to leave,” said the parliamentary-affairs minister. The episode arises from the ineffectiveness of the current set-up, but also points to a certain resilience in it.

The government has lately suffered many indignities and has few successes with which to counter them. They began in March when several defence officials and top politicians, including the head of the BJP, were caught by journalists on camera accepting bribes in exchange for promoting sales by a fictitious arms manufacturer. The BJP and its allies proceeded to perform dismally in several state elections. Now the ruling party—and in particular the finance minister—is being accused of sharing responsibility for malpractices at India's largest savings scheme, which has hurt 20m investors.

The carping would matter less if Mr Vajpayee were making progress on the biggest issues: its dispute with Pakistan over the mainly Muslim province of Kashmir and the reform of the economy. His invitation to Pakistan's leader was seen as an act of statesmanship, but Pakistan did better at exploiting the disputation at the summit that followed. Mr Vajpayee showed similar courage in embarking on economic reforms, and similar drift in enacting them.

Willing as they are to abuse Mr Vajpayee, his friends are not prepared to topple him. The likeliest successor in the sitting parliament would be the home minister, L.K. Advani, who is regarded as too unbending by several coalition partners. Mr Vajpayee's threat to resign may have been calculated to remind them of this. If so, it worked. The day after, the NDA pledged fealty. In some ways, the alliance is growing more secure. A couple of parties that broke with it to fight state elections on their own are now rejoining, or trying to. The main immediate threat to the government may be the 76-year-old prime minister's low morale.

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Pakistan's economy

General discontent

Aug 2nd 2001 | LAHORE
From The Economist print edition

But at least the lenders are happy

DEBT and the international dole are nothing new for Pakistan, which owes foreign creditors $37 billion. What is new is that the militarily-led government is making its creditors happy. Pakistan's “credibility as a borrower has been established,” said a recent report by the World Bank, which plans to lend $700m on soft terms. For the first time in a decade Pakistan has qualified for a second instalment of a loan from the IMF. Indeed, it hopes to get $1 billion a year from the Fund for the next two or three years.

Pervez Musharraf, Pakistan's uniformed president, has pleased lenders by backing firm measures of the sort democratic governments shy away from. The government has imposed a general sales tax on retail trade in the face of protests. It has strong-armed tax evaders, yielding an increase of nearly 50 billion rupees ($785m) in revenue in the fiscal year that ended on June 30th, despite a sharp slowdown in economic growth. State subsidies to the country's energy industries have been cut by periodically increasing the prices of petrol, gas and electricity.

State-run enterprises are also being knocked into shape. The banks are pruning staff and defaulters are being told to pay or face arrest. Privatisation of the telephone company and other enterprises should raise up to $3 billion in the next 18 months, most of which will be used to cut the foreign debt. The generals have not even spared their own: defence spending has been frozen at about 130 billion rupees, despite a 36% jump in the nominal military budget of Pakistan's main adversary, India, in the past two years. These measures have helped cut the deficit, to 5.3% of GDP in fiscal 2000 from 6.4% the year before.

Pakistan's only reward so far for all this virtue is a flow of credit and rescheduling that has staved off default. Economic growth, which averaged about 6% a year in the 1980s and 3% in the 1990s, fell to a dismal 2.6% last year. The downturn has been exacerbated by the austerity demanded by the IMF, which has hurt consumers without lifting the spirits of investors. Foreign investment slumped to a 12-year low of $182m last year. Domestic investment was just 11% of GDP, its lowest level in years.

The economy will not revive until investors return. They are put off in part by such commercial and economic considerations as the slowdown in the world economy but also by doubts about whether the government will stick to its reform programme. It has yet to reform, for example, the corrupt central tax-collection agency.

But it is Pakistan's erratic history and dangerous neighbourhood that is most off-putting to investors, and the military government has yet to reassure them. It has failed to contain violence among warring sects of Muslims, to repair its relations with India or to curb the Islamic fundamentalism it is importing from Afghanistan, whose Taliban regime it supports. The National Accountability Bureau, set up to fight corruption, has in fact hounded potential investors. American sanctions imposed after Pakistan tested nuclear devices in 1998 are still in place.

Lastly, although General Musharraf appointed himself president in June in part to see through economic reforms, he has not made clear what sort of government Pakistan will have in October 2002 when, to comply with a court ruling, democracy must be restored. He promises continuity, but investors want certainty.

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North Korea and Russia

Slow train coming

Aug 2nd 2001 | MOSCOW
From The Economist print edition

Kim Jong Il takes a trip

FOREIGN dignitaries visiting North Korea always receive a spectacular welcome from huge well-drilled crowds. When Kim Jong Il's train pulls into a grubby Moscow railway station this weekend, he may feel a touch disappointed that today's Kremlin can no longer match his own country's Stalinist traditions.

But few people really know what the North Korean leader thinks about anything. He has visited China twice since taking power. His only other recorded foreign trip was in 1965, when he visited Indonesia with his father. That experience seems to have put him off air travel for life—hence his trek to Moscow by special armoured train. Russia's president, Vladimir Putin, did meet him briefly last year, describing him afterwards as a “thoroughly modern man” (except, perhaps, where means of transport are concerned).

Better rail travel is likely to be one practical outcome of the trip. Russia and North Korea are planning to improve the track between the two countries. That could also eventually allow direct freight links between Russia and South Korea, which matters much more to Russia than does the impoverished North.

There are few other clues to the likely outcome of Mr Kim's trip. In the Siberian town of Omsk, Mr Kim briefly got off the train to visit a tank factory and a meat plant. His hungry people may hope for a trade deal involving products from the latter, but a more likely result of his trip is an arms deal to replenish the communist state's arsenal.

The greatest interest surrounds North Korea's missile programme, which western intelligence thinks has benefited from Russian help. Before setting off, Mr Kim told a Russian news agency, ITAR-TASS, that the suggestion that his country was building offensive rockets was a “lie”. Russia maintains that the North Korean programme is no threat to anyone. But it is rather a touchy subject. After his last meeting with Mr Kim, Mr Putin proudly announced that he had persuaded the North Korean leader to back down on his country's rocket project. Unfortunately, Mr Kim then spoiled things by saying later that this had been a “joke”. Mr Putin did not see the funny side.

Whatever the results, North Korea's media will praise the visit to the skies. Commenting on the “respected and beloved'' leader's remarks to ITAR-TASS, one senior official said he was “brimming with boundless pride in upholding the great general, who has extraordinary foresight and incomparable courage as leader.” Another official said, “We are overwhelmed with infinite gratitude to the general, who further glorifies the dignity and honour of our fatherland and nation with strong independent politics [and] with his energetic revolutionary activities.” Even Russia's increasingly tame media do not go that far when talking about their own mysterious leader. Not yet, anyway.

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Israel and the Palestinians

The consequences of selective killing

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From The Economist print edition

Israel's policy of assassination may prompt still bloodier retribution

Reuters

BY ASSASSINATING Jamal Mansour, Hamas's most prominent leader in the West Bank, Israel has ominously escalated the *intifada*. Two small boys walking with their mother in the street below were also killed on July 31st when three helicopter-launched missiles smashed through the windows of Mr Mansour's third-floor offices in Nablus. So were his top lieutenant, Jamal Selim, three other members of the Islamist group and a local reporter.

The United States, in unwontedly strong language in relation to Israel, condemned the attack as “excessive and highly provocative”. The Israeli government was unshaken, showing no sign at all of regret: intelligence officials claim that Mr Mansour had given the orders for the suicide-bombing at the Tel Aviv discotheque that killed 21 Israelis on June 1st. Even the leader of the Meretz opposition party, Yossi Sarid, said the Hamas leader was “designated for death”, though he disapproved of the method of killing because of the high risk of other people being hurt.

In Gaza Hamas's spiritual leader, Sheikh Ahmed Yassin, threatened bitter retribution. The Israelis would learn to their heavy cost, he pledged, “that our blood is not cheap.” Observers on both sides compared Mr Mansour's death to the January 1996 assassination by a booby-trapped telephone of Yahiya Ayyash, the Hamas “engineer” whom Israel had held responsible for a series of terror attacks. The retribution at that time took the form of a slew of bus-bombings in Tel Aviv and Jerusalem that killed dozens of Israelis—and helped to topple the then pro-peace Labour government.

But there are several big differences between 1996 and now. At that time, in the middle of the peace process, Fatah denounced terrorist actions in Israel, and the Palestinian Authority arrested 1,200 Islamists, mostly without charge. That would not happen now. In the wake of the Nablus killings, Fatah too promised “a swift and painful response”, announcing strikes and two days of mourning throughout the occupied territories. Israel's policy of assassinating Hamas and Fatah men alike has encouraged the formation of cross-factional groups, binding together the national and the Islamic resistance. One organisation, the National and Islamic Forces, is becoming particularly potent.

Fatah leaders are unconcerned that these developments do not fit with Yasser Arafat's efforts to bring some form of international protection to his people. “Talk of observers or political initiatives is meaningless now. Our only option is to escalate the resistance,” says Hatem Abdul Qader, a Fatah leader in Jerusalem. Palestinian guerrillas have indeed fired this week on Israeli targets near Ramallah, East Jerusalem, Bethlehem, Hebron and Gaza, leaving five Israelis wounded and two more Palestinians dead.

Yet the Israeli government believes that the new threat of revenge bombings is no graver than the dangers that the Israeli public is already facing. Only good luck, it says, and a shrinkage of the pool of “professional” bomb-makers due to earlier assassinations, has averted big disasters. On July 30th, for instance, a car-bomb planted in the underground car park of an eight-storey residential building in Jerusalem exploded only partially and apparently prematurely, causing no serious damage. On the same day a bomb exploded in a West Jerusalem supermarket without causing injury. Israel has denied responsibility for the deaths of six Fatah activists, three of them on Israel's “wanted” list, who were blown up on July 29th in a car workshop in Nablus. Palestinian security officers, on the other hand, said that the blast had been triggered by three booby-trapped devices, and held Israel to blame.

The day before, a Jewish fast-day, the main source of tension had been at Haram al-Sharif (Temple Mount) in Jerusalem. Large units of Israeli police, equipped with riot gear, had entered the Muslim shrine after some Palestinians, roused by the attempt of a tiny messianic Jewish cult to lay a cornerstone for a third Jewish temple, had stoned the Western Wall plaza, the adjacent Jewish holy site. There were injuries, but no deaths, a reason for relative relief in these awful times.

The relief is likely to be short-lived. Questions are being asked about the logic of Israel's decision to attack a figure of Mr Mansour's seniority. The obvious question: who will be next? Israel's minister of finance, Silvan Shalom, a member of Mr Sharon's policymaking inner cabinet, says reassuringly that Mr Arafat's own life is not in danger. But if the escalation goes on, he adds, “there could be a discussion one day about whether the chairman should be allowed to remain in the area.”

Be that as it may, Israeli officials say that the policy of attacking individuals believed to be directly involved in terrorism will continue, despite international disapproval. The Palestinian Authority continues to be undermined by the new joint commitment of nationalist and Islamist Palestinians to the armed struggle as the only way to resist the occupation. And despite, or perhaps because of, the serious worsening of the situation on the ground, the dispatch of American observers to monitor the now non-existent ceasefire seems no more of an immediate priority than it was before.

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Caspian oil

Storm in a precious teacup

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Little naval clashes over oil rights could be serious

IT SOUNDS like the opening lines of a military planner's scenario for the third world war. The countries involved are a rough bunch and their leaders, in varying degrees, ill, weak, ruthless or mad. Two of the countries are heavily armed. A vital western interest is at stake: billions of dollars' worth of oil.

Last week an Iranian naval vessel forced two oil-exploration ships, British-owned and run jointly with an Azerbaijani company, away from a disputed bit of the Caspian Sea. Iran then sent military aircraft twice into air space claimed by Azerbaijan and said that, as the borders were not determined, it was doing nothing wrong. The Iranian ambassador mysteriously left Baku, Azerbaijan's capital.

A report in the semi-official *Tehran Times* on July 26th raised the temperature further. “Following the imprudent act of Azerbaijan, supported by Britain, Iran has deployed its military ground forces to the Iran-Azerbaijan borders,” it said. The Azerbaijani media meanwhile quoted a senior Iranian official recalling that Azerbaijan was once an Iranian province. “Leaders of Azerbaijan should rule their country in a way that will not make Tehran think of reclaiming Azerbaijani territory,” he supposedly said. True or not, Azerbaijani officials responded in kind. Aliar Safarli, a former ambassador to Tehran, claimed to have evidence that “every year Iran allocates over $50m for acts of sabotage in Azerbaijan.”

Nothing very bad has actually happened so far. But the row highlights the decade-old failure to decide how to divide the Caspian Sea, and its mineral resources, after the Soviet Union's collapse. The argument revolves round an arcane principle of international law governing maritime borders. Two of the new countries bordering the Caspian, Azerbaijan and Kazakhstan, want it treated as a sea, entitling them to their own territorial zones. Russia and Iran say their Soviet-era treaties make it a lake, which under international law would mean that most of it would be jointly owned and managed—giving them a bigger slice. The two are broadly backed by the fifth country, Turkmenistan, although its megalomaniac leadership is notoriously unpredictable.

None of this would matter if it were not for the oil beneath the Caspian. All five countries want their share, or preferably rather more than their share, of the estimated 70 billion to 200 billion barrels. None of them is good at negotiating constructively. The West broadly backs Azerbaijan and Kazakhstan, where their oil companies have invested heavily. But only Russia and Iran have a significant naval presence in the Caspian.

Russia is urging calm in the current row but has also been flexing its muscles of late. In January its Caspian fleet conducted exercises with live ammunition. Its warships then anchored off Baku, asking for permission only after they had done so. Last month Russian officials announced that three powerful new ships were joining the fleet. It has also leant heavily on the Azerbaijanis to stop Chechens using their country as a base for propaganda.

Plenty of other rows smoulder in the region, too. Azerbaijan's relations with Iran have become strained of late. The large Azeri-speaking population in northern Iran feels put-upon. It would like more rights for its

language (akin to Turkish) and culture. Some Azeri nationalists dream of unifying all their compatriots in one country. Iran sees a western-backed, pan-Turkic conspiracy behind such talk while Azerbaijan's authoritarian secular leadership sees Islamic plots behind every minaret. The country's ailing president, Heidar Aliev, is due to visit Tehran this month, for what should—if it happens—be an interesting exchange of views.

A third quarrel drags on between Azerbaijan and Turkmenistan, a gas-rich dictatorship to the east of the Caspian. This is about gas debts from the early 1990s, which Azerbaijan says were incurred by private companies. Turkmenistan wants Azerbaijan to pay and has closed its embassy in Baku as a sign of its displeasure.

It now looks as though tempers are cooling. The British oil company involved, BP, has suspended drilling in the disputed oilfield. The report of Iranian troop movements was subsequently denied. The Iranian ambassador to Baku is due to return shortly. The presidents of all the Caspian countries are due to meet in the autumn. But it is worrying, nonetheless.

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Zimbabwe

One more for Mugabe

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A crucial by-election victory for the ruling party bodes ill for the opposition

THE spirits of supporters of Zimbabwe's main opposition party matched the dismal skies and chilly rain that settled on the capital Harare this week. The Movement for Democratic Change (MDC), had lost a by-election at Bindura, a nearby mining town, and by a bigger margin than in the general election last year. The MDC has now lost three by-elections in a row, raising doubts about its chances of getting rid of Robert Mugabe in the presidential election that is due before next April.

A couple of weeks ago it all looked more hopeful for the MDC. Cracks had appeared in the increasingly autocratic ruling party, ZANU-PF, as Mr Mugabe squabbled with his finance minister, Simba Makoni, over the parlous state of the economy. In May another minister fled to South Africa, saying he could tolerate Mr Mugabe's misrule no longer. Just after that, the MDC won an important mayoral election.

Since then, Mr Mugabe has done better. A general strike last month came to nothing and African foreign ministers mumbled support for his land-reform policy at a summit in Zambia. Libya's Colonel Muammar Qaddafi promised him $360m to ease the country's fuel shortage and nearly $1m for ZANU-PF's election coffers, despite a law banning foreign funds. No wonder Mr Mugabe sounds bullish. He has told his cabinet, with an eye sharply on Mr Makoni, that he will not tolerate cowards. Journalists have been warned about new controls and all BBC journalists have been banned from visiting the country.

The MDC, however, believed it could win Bindura. The previous MP had a majority of only 2,000. The MDC campaigned for urgent land reform to match the government's seizure of white-owned land in the rural areas. And in the town itself the opposition party hoped for the sort of support it commonly enjoys among the relatively sophisticated urban population of Zimbabwe.

Instead, ZANU-PF's majority grew to 6,400. Its land-redistribution policy proved popular among peasants, but it is hard to say whether that was what carried the day. For the election was neither free nor fair. During the campaign the MDC's leader, Morgan Tsvangirai, was ambushed and shot at and on election day the party's candidate, Elliot Pfebve, was actually arrested, albeit briefly. MDC monitors were refused access to mobile polling stations in outlying areas and thugs beat up suspected opposition supporters. ZANU-PF handed out government development money and an extra 4,000 voters were moved to the constituency before the poll.

Nobody expects next year's presidential election to be free, fair or properly monitored either. This week the minister of information attacked the use of election monitors, so it still remains unclear what role awaits the Commonwealth observers who may soon be allowed to visit. And with a series of other by-elections due, including one in September in Mr Tsvangirai's own constituency, ZANU-PF is likely to keep up its momentum and hone its thuggish electoral tactics.

A few hopes remain for the opposition. The country's courts, despite efforts to pack them with political appointees, continue to strike down dubious ZANU-PF electoral victories. The MDC may yet challenge the Bindura result. Perhaps more important, self-respecting judges are unlikely to accept a treason trial for Mr Tsvangirai, who has been accused of threatening the president's life. However, another High Court judge resigned this week.

ZANU-PF's efforts to rig the presidential vote next year will also be harder than rigging a by-election. Since the presidential vote will be held without constituencies, the relative strength of the MDC in the cities should enable it to deliver its vote. Instead of shipping voters from one constituency to another, ZANU-PF would have to stuff ballot boxes, a tactic it has been wary of, so far. And with six months more of economic collapse, suffering peasants may quietly decide to risk ZANU-PF's thugs rather than endure

another six-year term under Mr Mugabe.

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Angola

No place for the poor

Aug 2nd 2001 | LUANDA
From The Economist print edition

The government is cleaning up the capital—including the inhabitants

FROM the carefully kempt lawns of Miramar, a posh clifftop district of Luanda, diplomats and oil executives can gaze on hungry people down the hill sifting through rubbish bins and homeless children bathing in huge potholes. The smarter parts of Luanda—those parts frequented by foreigners and the once-Marxist, now rich and venal, elite—are being done up. Street lights and broken pavements are being replaced, gardens are being tidied up and replanted and a colonial palace, demolished by one government department, is being rebuilt in concrete on the orders of another.

Much of this patchwork gentrification is being done by the Urbana Project, which encourages private businesses to pay to smarten up their areas. But the people paying the highest price for inner-city rejuvenation—and reaping none of the benefits—are the 50,000 people of Boavista, an unplanned zone that straggles up the steep red-sand cliff to Miramar from Luanda's harbour. Boavista's concrete-block houses may not be luxurious, but they are infinitely better than what their occupants have now been moved to.

Earlier this year, a section of the Boavista cliff gave way and several houses collapsed, killing at least six inhabitants. The government said the site was unstable and last month sent in police with guns and workmen with sledgehammers. The houses, some of which were quite substantial and worth a few thousand dollars, were smashed to rubble. In scenes reminiscent of forced removals in South Africa under apartheid, the inhabitants were put on trucks and driven off.

They have been dumped in lines of army-style tents on the dusty edge of Luanda, some 30kms (20 miles) from the city centre. The municipal services there consist of a water cart, a few pit latrines and canvas awnings for school classrooms. The former Boavistans are now as badly off as any of Angola's impoverished *deslocados*, war-displaced people who also live in clusters of tents and shanties amid street markets and rubbish dumps on the edge of town. Adding to their misery is unemployment: many have had to give up their jobs or market stalls in Luanda because fares to and from the city centre cost around $1, almost a day's wages for poorer residents.

The government has promised them new houses on a nearby building site and some are working there, rewarded with food handouts. But they angrily describe how they were encouraged to build at Boavista more than 20 years ago, when the government said it had no money for public housing. Lawyers have launched a legal challenge to the evictions but the demolitions have continued.

The government consistently denies any motive other than a concern about the instability of the Boavista cliff as its reason for moving the people out. But a glossy brochure published by the state oil company, Sonangol, suggests there may be other plans for this central site with spectacular sea views. Sonils, a subsidiary of Sonangol, plans to develop the area adjoining Luanda's harbour. As well as a base for Sonils, the development will include “the construction of a shopping centre, a residential area with entertainment clubs, restaurant, bar, leisure areas, supermarket, swimming pool, laundry and cable television.”

A Sonils official says that the plans require “a joint solution with the Luanda provincial government to construct an area of low-cost housing to relocate the people who live in the vicinity.” The government seems to agree and is understood to be considering asking foreign aid agencies for help. The UN mission in Luanda is quietly voicing concerns about human rights and the implications of turning low-income people into no-income people. With 1.2m Angolans uprooted by the civil war and already heavily dependent on aid, no one is keen to find money for an oil-rich government to rescue the victims of its urban gentrification.

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Globalisation through French eyes

Putting the brakes on

Aug 2nd 2001 | PARIS
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The force of globalisation is a fact of modern life, French leaders accept. But they feel it needs to be kept in check

Reuters

Bové misses an opportunity

COMPARE two reactions to the violence at last month's G8 summit in Genoa. First, that of Britain's prime minister, Tony Blair: “So these people can come and they can riot and protest on the street and throw petrol bombs at the police and then we, the democratic leaders, should conclude from that that we should never meet again. I think the world has gone mad.” Fair enough, from a man who, when he spoke, had no idea just how thuggish the police too had been. After all, why should violent protest stop elected world leaders meeting to discuss world affairs?

But listen now to France's prime minister, Lionel Jospin: “While denouncing the violence to which a minority resorts on the pretext of denouncing the ravages of globalisation, France rejoices in the worldwide emergence of a citizens' movement, in as much as it expresses the wish of the majority of mankind better to share the potential fruits of globalisation.”

Quite a contrast. Why? True, Mr Jospin is of an older left than Mr Blair. But French companies have rushed worldwide—companies like Vivendi, recent buyer of Universal Studios in California, or Michelin, with 38% of its tyre sales in North America, or Renault, building Nissan vehicles in Japan. Indeed, France counts itself the fifth-biggest trader of goods and services, and is visited by far more tourists than any other country. So why the difference?

One reason indeed lies in the past. Mr Jospin was for years a Trotskyite, dedicated, like Genoa's extremists, to the overthrow of global capitalism. Even in youth, Mr Blair was no real left-winger, let alone that far left. Secondly, Mr Jospin was not at the summit: France was represented by Jacques Chirac, its conservative president and his own presumed opponent in a presidential election next spring. But the underlying reason is that Mr Jospin and French voters, of both right and left, have an instinctive mistrust of globalisation.

To them, it smacks not just of unrestrained free markets and other supposedly “Anglo-Saxon” notions, but also of an American hegemonism that modern France, from Charles de Gaulle onward, has felt duty-bound to resist. José Bové, leader of France's small farmers, has become a national hero whom no politician dares criticise, through stunts such as vandalising a McDonald's restaurant or tearing up genetically modified crops. A poll in France last year found 12% of respondents ready to say they admired the United States, 46% either critical of or worried by it, and 75% who wanted less American influence on “economic and financial globalisation”.

And, they could have added, on language. French was once the nearest thing (since Latin) that Europe had to an international language. English is now a truly global one and, backed by the weight of American culture and money, is widely—for understandable reasons—seen as a threat to French culture even in France. Hence what seem, to English-speakers, bizarre attempts to restrict its role in the media; hence the (paradoxically, globalist) attempt to encourage the French language wherever in the world—Canada and Africa, notably—it is used.

Yet great numbers of these same suspicious Frenchmen guzzle on McDonald's hamburgers, buy their T-shirts from Gap and troop along to the latest offering from Hollywood (or to French imitations thereof, like this summer's film hit, “Le fabuleux destin d'Amélie Poulain”, much criticised by intellectuals for being just that). So the conventional wisdom is not that globalisation can be—or should be—prevented,

but that it must be regulated. Back in 1993 Edouard Balladur, a conservative prime minister, argued: “What is the market? It is the law of the jungle, the law of nature. And what is civilisation? It is the struggle against nature.” Tone it down a bit, for “market” read today's “globalisation” and Mr Chirac would not disagree.

So regulate, but how? Mr Jospin's answer is through state intervention. Just after the Genoa summit, he told a foreign-ministry audience that it was only at first sight that globalisation reduced the role of the state. Look closer, and who but the state can provide the necessary rules for trading standards, the environment, social rights and so on? “Globalisation gives a new legitimacy to modern states,” he said.

A prime minister would, wouldn't he? And it is a natural line in France, where a quarter of the workforce is in the public sector and where the state is traditionally accorded reverence rather than American-style mistrust or contempt. But is there more to it than governmental self-interest and a cultural credo? Yes, says Mr Jospin. Within the OECD, the rich countries' club, state spending is now equivalent to an average of 37% of GDP, compared with 25% in 1965. In contrast, in the world's poor countries, he says, “wherever the state collapses, development retreats, investment disappears and capital flees.”

President Chirac, no ex-Trotskyite he, responded to the G8 summit much as Mr Jospin did: “Our democracies, clearly, cannot be mere spectators of globalisation. They must tame it, accompany it, humanise it, civilise it.” That was music to the ears of trade unions, anti-industry lobby groups and non-governmental organisations, for whom, Mr Chirac went on to claim, France is “probably the most open” country and closest to their concerns.

Yet the anti-globalisers would be foolish to claim victory, even on the soil of France. For all such soothing words, the French establishment has no intention of turning the global clock back. Witness a government statement last month that experimental fields of genetically modified crops pose no risk to health. Witness, too, the appearance before the judges yet again of the campaigning Mr Bové, this time to see whether he may have defamed manufacturers of animal feed.

Nor is the state alone. Business is proud of its many footholds abroad. And the working citizen? Well, did those who complained bitterly when Marks & Spencer abruptly announced the closure of its French stores actually want the perfidious British retail firm to go home? No, they wanted it to keep its shops open.

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Italy after the G8 summit

Shamed

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Italy's police disgraced their country. Its politicians have done little better

EPA

Or a demonstrator's head

IT WAS not clear at once, but it soon became so: whatever the violence of the anarchist or merely thuggish minority of protesters at the G8 summit, some of Italy's police and carabinieri behaved at least as badly. Italians last week were shocked as television and press, day after day, displayed the disgrace of their finest: police boots and truncheons in action on fallen or surrendered demonstrators; the battered faces and bodies of people whose sole crime was to have been trying to sleep in the school used by the protesters as their headquarters; the testimony of those swept off to a police barracks and threatened with violence if they would not sing fascist songs; and much else. Quite simply, some of the police, especially in the raid on the school, had gone berserk.

Yet, into the current week, there followed another spectacle in its way almost as shocking, and almost as lavishly reported: the spectacle of the politicians, left and right, feverishly trying to make political capital out of a national disgrace.

To much of the governing centre-right, the police thuggery was mere self-defence (as it manifestly had not been in the school or the police barracks), against the organised violence of the *tute nere*, the “Black Overalls”—the “Black Block” as the media soon named them, in those English words—among the protesters. And blame, if any, for the police? Who appointed the police chiefs responsible, asked the prime minister, Silvio Berlusconi? The old centre-left government, that was who.

The left was not to be outdone. The violence was like that of Augusto Pinochet's Chile, averred Massimo D'Alema, a former prime minister.The theme of a quasi-fascist plot between the police and the far-right National Alliance (its leader, Gianfranco Fini, is Mr Berlusconi's deputy) was widely aired; not that the “they got what they deserved” reaction of some of that party's parliamentarians did much to disprove it. One purported eye-witness even suggested that some of the Black Block were on curiously good terms with the police; such things can happen, but would the police have had to seek out German-speakers, as many in the black overalls were, from hundreds of kilometres away, to act as *agents provocateurs*?

And meanwhile the parties wrangled. Should the Senate debate a vote of confidence in the interior minister? Should the lower house investigate? Or both? And in what order? Or neither? At last, on Monday, came a voice of authoritative sanity: President Carlo Azeglio Ciampi “hoped for and was awaiting” the full truth about what happened in Genoa, as did “all Italians, without distinction.” Some decency returned. Already a police inquiry has pointed fingers, notably at the bosses of an anti-terrorist group and of a flying squad from Rome. The interior minister said any guilty police would be punished. At last, parliament agreed to inquire itself.

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The EU and Brussels

A bureaucracy by any other name

Aug 2nd 2001 | BRUSSELS
From The Economist print edition

The European Union is looking for a new, charming image for its home town

SIT out in a café on a summer's evening in Brussels and, with the help of a few beers, it really does feel as if the city is the capital of Europe. A babble of different languages arises from the tables. Even the waiters and waitresses often seem to be multilingual, switching easily between French, Dutch and English, and more.

The number of languages and nationalities in the office corridors and cafés of Brussels will rise even further when the European Union expands to take in what may be as many as 12 new members. The city authorities reckon there are already around 23,000 foreign Eurocrats and their families in Brussels, and perhaps another 10,000 Europeans whose jobs are linked to the EU. This week the European Commission suggested that it would have to add 2,500 extra people to its staff because of enlargement, of whom 400 will be interpreters. The army of lawyers, journalists and lobbyists that follows the EU will also grow. The commission is already planning a fourth European school and 600 extra nursery places for Eurobrats.

This expansion of the number of professional Europeans in Brussels, combined with the increasing pace of European integration and the decision to hold all European summits in Brussels from next year, has prompted the commission to start a debate on the role of the city as the “capital of Europe”. The hope is that European citizens will stop regarding the seat of the Eurocracy as merely a producer of beer, subsidies and pointless regulation, and instead take some pride in it. Romano Prodi, the president of the commission, says his aim is to “make Brussels a place that all citizens of Europe can relate to”.

One thing he wants is some visible feature to act as a favourable symbol of Brussels across the EU, as the Eiffel Tower and Big Ben symbolise Paris and London. The obvious candidates, alas, are not inspiring. The Manneken Pis, a tiny, working statue of a urinating little boy, is famous, but intrinsically absurd. Then there is the Atomium, a giant-sized more-or-less model of an atom put up in 1958 as a tribute to the potential of the nuclear age. It has the merit of being both distinctive and contemporaneous with the foundation of the EU itself. But, though it may have seemed the epitome of modernity 40 years ago, it is now a rusting hulk.

The truest-to-life candidate might be the Berlaymont, a large star-shaped building that used to serve as the commission's headquarters until it was evacuated because of an asbestos scare. It has been undergoing an expensive refit for most of the past decade and will eventually reopen. But it remains hideously ugly and screams bureaucracy—not exactly the image that Mr Prodi hopes to promote.

The fact is that the best things in Brussels are the splendid food in its restaurants, and its city squares, parks and woods; the stuff of the good life, but not of good symbolism. So Mr Prodi, eager to find some inspiring ideas—about architecture and much else besides—is staging two seminars on Brussels this year, with a cast of European intellectuals.

The first, in May, did not go terribly well. One of the participating thinkers, Umberto Eco, author of “The Name of the Rose”, emerged to call the exercise “completely artificial”, saying that Mr Prodi had “got together all these irresponsible people to find ideas and symbols for something that does not yet exist.” An accurate synopsis of Mr Eco's novel, it might be said. But Mr Prodi is a courteous fellow and, rather than hit back at his guest's smack across the chops, he will carry right on with his second seminar, next month.

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The EU outside Brussels

Wider still and wider

Aug 2nd 2001 | BRUSSELS
From The Economist print edition

The EU family spreads its wings

ONCE upon a time, the European Union lived essentially in Brussels. Oh, and Luxembourg. And, of course, Strasbourg, home of its parliament and *pâté de foie gras*. But now, labouring under the banners of often impenetrable acronyms, and at one remove from the European Commission (which enables commissioners to make virtuous claims about their small staffs), the Eurocrats are everywhere.

The acronyms signify a host of agencies and authorities that burgeoned in the early 1990s, when the commission, under Jacques Delors, was in expansive mood. It spawned such bodies as the European Monitoring Centre for Drugs and Drug Addiction, the European Agency for Safety and Health at Work, the European Agency for the Evaluation of Medicinal Products and the Office for Harmonisation in the Internal Market (trademarks and designs).

The idea took hold that no area of EU business was complete without its agency or authority. National governments lobbied for a piece of the action, eager for vacuous prestige and an influx of well-paid EU officials. The agencies became political pork, to feed those bypassed by the travelling circuses of the European Commission, Parliament and Council of Ministers shuttling between Brussels, Luxembourg and Strasbourg like medieval courts.

In 1993 a ragbag of minor EU institutions was distributed among less privileged EU countries. There were just enough to go round. Of the three 1995 entrants, Austria now houses the European Monitoring Centre on Racism and Xenophobia, handily placed to irritate Jörg Haider. Only Sweden and Finland are still waiting. The Finns have high hopes of the European Food Authority, the EU's response to burgeoning food scares, which from next year will be dispensing impartial Euro-scientific advice on which end of a

mad EU cow is its foot and which its mouth, and whether eaters should care.

Yet to come (and be placed) is a marine-safety agency, at one moment destined for that mighty seaboard power, Luxembourg, until France rocked the boat with a claim from Brest. An agency for the information society may be created, to keep Sweden virtually happy. But what happens when the EU is enlarged?

Well, Greece now shares (with Kosovo, not yet in the EU) the new European Agency for Reconstruction. Who knows where else the agency may have to spread? Training, already ingeniously split between plain in Turin and vocational in Salonika, could no doubt be subdivided further: practical (Germany?), emotional (Poland?), theological (for Geneva, when one day even the Swiss come in), monarchical (Bulgaria) and so on.

Pork-barrelling, of course, would stay in its proper home, Brussels.

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Russia's coming winter

Icy calm

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The authorities were ill-prepared for last winter. There's worse to come

EPA

Central heating, post-Soviet style

RUSSIA'S capital is still sweltering in the summer heat, but the looming difficulties of keeping the country heated this winter are already sending a chill through top officials' hearts. Last winter was the worst for decades in the east of the country. Fuel stockpiles were too low. Rickety equipment conked out. So hundreds of thousands of people endured days, even weeks, in temperatures well below zero. President Vladimir Putin was furious, and instructed his government to sort things out in time for next winter. Some hope.

The most vigorous activity visible in officialdom is energetic buck-passing. Officials at local heating plants say fuel deliveries are far behind schedule. The energy companies say that rail freight charges for coal are too high, and that they are not paid properly for deliveries. Local authorities say they simply cannot afford to pay for heat. The government berates dishonesty and incompetence, but so far seems to have little idea about what to do.

The statistics are dire. Prospects for much of Russia east of the Urals look even worse than last year. The ill-run Maritime region, in the far east, was the worst hit last year. There, the federal government has taken direct charge. But Dalenergo, the main power company, says it has only 40% of the needed coal reserves. The local authority says it lacks 1.3 billion roubles ($45m) to get ready for the winter, and blames Moscow for not providing it.

Across Russia, the main electricity generator, United Energy Systems, says its consumers owe it more than 100 billion roubles. A large chunk is due from the central government. Dealing with non-payers is politically explosive. In the far-northern town of Archangel the local power company wanted to cut off Sevmash, a deadbeat local engineering company. Then it realised that the firm was involved in raising the sunken *Kursk* nuclear submarine, a project close to the Kremlin's heart.

Some of the current panic is for propaganda purposes. On past form, quite a lot of fuel usually does get delivered at the last moment, or soon afterwards. But that does not solve the underlying problems. Too many people live in unserviceable places. Heating systems are simply worn out, and payments too low to pay for proper upkeep, let alone replacement. Design dates from the days when energy was virtually free, so huge amounts are simply wasted. Pipes are badly insulated. Most Soviet-era radiators lack any controls; if a room gets too hot, you open a window.

There are long-term solutions around. Chukotka, the country's most distant and impoverished region, is thinking of wind power. Another idea, much liked by economic reformers in Moscow, is to move over to a decentralised system of small gas boilers, rather than pumping heat from giant plants. But any of that would require some competent administration and political will on the ground. It is easier just to blame someone else. Where will that blame stick? Another fiasco-filled winter would be bad news for Mr Putin. Last time he could still blame the old regime. Now he has 12 months' less excuse.

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Turkey's Kurds

With a little help from the ref

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Football is a new way of winning over the Kurds. Maybe

Reuters

Eee aye addiyarbakir

AFTER decades of attempts at forced assimilation, the Turkish state has devised a new way to undercut separatist sentiment among its restless Kurds: football. So, with more than a bit of collusion from suitably nationalist referees, policymakers in Ankara managed last season to help a pretty shoddy second-division team from the largest Kurd-dominated province, Diyarbakir, win promotion to the first division. Even now, the red and green banners of the club, Diyarbakirspor, continue to swathe the provincial capital in celebration of this notable if dubious triumph.

The scheme is said to have been masterminded by Gaffar Okkan, Diyarbakir's swashbuckling police chief. He practised with the team daily, and attended all its games. Despite which, it won, and Mr Okkan's embrace of the team—and his attempts to curb police abuses—won him the affection of the locals, who took to the streets in huge numbers after he was murdered last January in a still unexplained bomb attack. Posters of him are to be found in far-flung corners of Kurdish regions where the word *polis* was, until his arrival, synonymous with brutality and torture.

This unlikely turn of events shook Hadep, the largest pro-Kurdish party. It had been swept to power across the Kurd-dominated provinces in municipal elections in 1999, and makes no secret of its sympathy for the imprisoned Kurdish rebel chief Abdullah Ocalan and his PKK guerrillas. It decided to get in on the act, forking out large sums of money to the club—a craftier move, perhaps, than the youth tournament that Hadep's branch in Adana province organised this spring, only to have all the young footballers and the organisers briefly arrested for “breaking anti-terror laws”.

The twist is that, for all the government's backing, when Diyarbakirspor plays outside the Kurdish provinces, the home side's supporters roar “Ocalan's bastards” or “PKK go home”. Never mind that all but two of Diyarbakirspor's players are non-Kurds—and that those two are reserves, not first-team players, and anyway now on the transfer list.

With Turkey's new football season due to open on August 10th, Kurdish followers of the game face another problem. Many of them support another first-division club, Galatasaray. It comes from Istanbul. But this is a really top-class side, of international standing. And it has a further charm: its players' red and yellow strip, when set against the green of the football field, makes up the colours of the Kurdish flag. It is also Mr Ocalan's favourite club. Now that their own lads are in the first division, which of the two, thousands of Kurds are asking themselves, should they support?

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Charlemagne

Peter Caruana

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He runs Gibraltar, the last disputed bit of land in Europe west of the Balkans

IT HELPS to be a lawyer like Peter Caruana if you are chief minister of Gibraltar, a toy-town British territory clustered on a huge rock at the southernmost tip of the Iberian peninsula. For centuries Britain and Spain have been squabbling over who owns it. In 1967, 12,138 of its inhabitants voted to keep its status as a British dependent territory, against 44 who wanted it to join Spain. Two years later they secured a constitution which said they would never be handed over to another country against their will. But some change may now be in the offing. On July 27th the British and Spanish foreign ministers agreed to push ahead towards solving their dispute. They also agreed that the territory's chief minister should be present at future talks—the first time that has happened for more than 20 years.

Gibraltar is Europe's last territorial dispute west of the Balkans, the Irish republic having formally given up its claim to Northern Ireland. These two conflicts have one similarity: on geographical-cum-historical grounds, a neighbouring country claims a territory most of whose people reject the claim. But Spain, unlike Ireland, can blame only itself. It surrendered “the Rock” to the British, who had seized it in war, by a treaty signed in Utrecht in 1713. Soon, and repeatedly since, Spain was making efforts—including a siege from 1779 to 1783—to get Gibraltar back. The dictator Francisco Franco made much of the issue and in 1969 closed Gibraltar's land frontier. Its people, for all that many were married to Spaniards and had relatives across the border, developed a deep distrust of their bullying neighbour. And Spain's return to democracy, and (even then dilatory) reopening of the frontier, did not dispel those fears.

The dispute still rumbles on, chilling relations between Spain and Britain, and complicating life for the European Union: Gibraltar is within the EU, under Britain's hat, and Spain regularly blocks any EU legislation that might imply recognition of it as a separate entity. But recently Spain, which takes over the EU presidency in January, has signalled greater openness than ever before. In 1997 it proposed a long period—70-100 years—of joint sovereignty before Gibraltar would become Spanish, with wide self-government. It now says it can contemplate any status for Gibraltar except independence (practicalities and national pride apart, the treaty of 1713 said that, if Britain left the Rock, Spain would have first claim to it). The British, under Tony Blair, would like a settlement. Most EU countries would be happy; try a less national, more EU status, suggest some hopefuls. Mr Caruana, in office since 1996, may prove more flexible than his long-serving predecessor, Joe Bassano. But could he carry the Gibraltarians, still subject to niggling Spanish restrictions, with him?

Mr Caruana's ancestors came to Gibraltar from Malta. In time the family joined the colony's elite, merchants in those days, today lawyers and businessmen, whose interests often span the border and who are keener than most Gibraltarians on a settlement. Mr Caruana has houses on the Rock itself and in Sotogrande, a luxury development on the Costa del Sol, next to a golf course where he indulges his passion for the game.

After a school in Britain, he read law at London University. By 1979 he was back home, with a leading law firm, Triay and Triay, and married the boss's daughter. They have a large family. But one link with his father-in-law proved less happy. Joseph Emanuel Triay led a political movement, denounced by Gibraltarians as *los palomos* (the doves), eager to settle with Spain; and the young Caruana acted as his electoral agent. He now plays this down. But Gibraltarians remember it, and he has to be ultra-careful of their sensitivity about Spain.

Entering politics on his own account in 1990, Mr Caruana became leader of the conservative opposition in Gibraltar's 15-seat assembly in 1992, and in 1996 replaced Mr Bassano. Like his predecessor, though in easier circumstances, he has had to work to boost an economy that as late as the 1970s was 65% dependent on British defence spending. That spending shrank swiftly and sharply; today, in a healthy

£450m ($630m) economy, its share is only 6%. Mr Caruana has encouraged tourism, now the main money-spinner. He has also had to work hard—though not hard enough, in Spanish eyes—to refute charges that Gibraltar has become a centre for tobacco- and drug-smuggling and for money-laundering. He wants it accepted as a legitimate off-shore financial centre. His government spends £150m a year on its 30,000 people, and is comfortably in surplus.

Not quite a colony, but not independent

And that “last territorial dispute”? Mr Bassano, a fiery trade-unionist from the opposite end of the social scale, who had worked in the naval dockyard, pushed relations with Britain to breaking-point, mooting the idea of independence. Mr Caruana treads a lawyer's line between asserting Gibraltarians' right to self-determination—a term dear to Basque nationalists that sends shivers down Spanish spines—and keeping in with the British, in whose hands the territory's fate lies. He says he wants to end with Gibraltar in “a non-colonial situation” that would nonetheless leave it under British sovereignty. “Gibraltarians do not want independence,” he insists, but they do “feel Gibraltarian rather than British or Spanish”.

An important test of his stance—and his ingenuity—is likely to come in the autumn. Britain and Spain are set to sign an agreement giving Spain some say in the running of Gibraltar's airport. This is an especially thorny issue, because the airport is built on land, between the Rock proper and the mainland, which was not covered by the Treaty of Utrecht and was simply grabbed by the British in the 19th century. Gibraltar's assembly refused to implement an agreement on joint use in 1987. The issue now is one obstacle to EU plans to modernise the use and control of Europe's air space. Persuading Gibraltarians to accept a new deal on this point could be the first step to a wider settlement.

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Local government

The mayor's new friend

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The Corporation of London is secretive and unaccountable. It needs scrutiny

THERE are three ancient institutions still functioning in modern Britain: the monarchy, the House of Lords, and the Corporation of London, the local authority that controls the City of London. But while the importance of the first two is much diminished, the Corporation, the least reformed of all, is more influential than it has been since its medieval heyday.

Dating back to the early 12th century, it owes its survival to what Tony Travers, professor of local government at the London School of Economics, calls a “steely determination” to maintain its power. The Corporation is unique. It doubles as a local authority and as a vast property company. With a panoply of archaic flummery, and farcical voting rights, it has always represented a ripe target for the would-be modernisers in British politics. But the Corporation easily saw off the reformers of the 19th century. And now, it is enjoying a new lease of life in the age of the arch-moderniser himself, Tony Blair.

In fact, the Corporation has done a deal: very pragmatic, very New Labour. While still leader of the opposition, Mr Blair threatened to abolish it unless it reformed itself and started sharing out some of its great wealth. That it has begun to do. Ironically, the Corporation now wields more influence in London politics than ever. It has even formed a remarkable alliance with that former enemy of global capitalism, the mayor, Ken Livingstone.

Square mile, square meal

In striking its pact with the Corporation, New Labour had an eye on its money. This is easily the richest local authority in Britain, with an extensive property portfolio that it has accumulated through bequests, gifts and purchases over 600 years.

Most of its assets are held by two privately held trust funds, City's Cash and Bridge House Estates. City's Cash owns more than a quarter of the land in the square mile of the City of London itself, as well as prime chunks of London's West End, such as the Conduit Mead Estate. Picked up in 1629 for £200, this includes a good proportion of what is now the capital's smartest shopping street, Bond Street. Its income-earning properties are valued by the Corporation at just over £1 billion. Other assets include four London markets, Hampstead Heath, 10,000 acres of woodland, three private schools, the Barbican Centre, a half-share of the Museum of London and much else (see map).

The second privately held trust fund, Bridge House Estates, dating back to 1097, has traditionally paid for the upkeep of the four London bridges that the Corporation owns, including London and Tower bridges. Under threat from the politicians, the Corporation converted the fund into a charity in 1995. It now hands out grants totalling £16m ($23m) a year to good causes around the capital. The enormously rich City is surrounded on its eastern side by three of the poorest boroughs in England, Hackney, Islington and Tower Hamlets. The new line from the Corporation is that such disparities in wealth are “unacceptable” in the 21st century.

Since the mid-1990s the Corporation has also become involved in an array of government-sponsored regeneration initiatives and partnerships in the surrounding boroughs, including the City Fringe Partnership, the Cross River Partnership and many more. The financial and administrative involvement of the Corporation across London has meant that as a non-political body, it is in a unique position to broker deals between London's other 32 local authorities.

The Corporation has been less successful in fulfilling the other side of its deal with Mr Blair, democratic reform. Unlike any other local authority, the Corporation is run by a Lord Mayor and 122 members of the Court of Common Council. And there are still Aldermen and Sheriffs, usually elected by a show of hands. But it is the archaic nature of the current franchise for the common councillors, dating from the 1850s, that has attracted ridicule over the years. Rather than one person, one vote, there is a business vote, confined to non-resident business owner-occupiers and tenants, as well as people in partnerships, such as lawyers. Incorporated companies do not get a vote. That means that most of the banks and large companies that make up the modern City are disenfranchised.

This has led to abuses of the system. One favoured way of getting a vote was to let a basement to a friendly tenant. It was revealed recently that the Lord Mayor, through various anomalies, is allowed to vote four times in elections. The Corporation proposed its own private parliamentary bill to reform the system in 1998, to extend the franchise to larger businesses. But even the reforms have been branded as archaic and undemocratic by London Labour MPs. It could be years before any reform is agreed and becomes law.

Money lures Livingstone

The changes in the way in which the Corporation does business have been won after hard work by the Corporation's own modernisers, led by Judith Mayhew, the head of the Corporation, and her predecessor, Michael Cassidy. Ms Mayhew also emphasises the role that the Corporation plays in representing the financial and business interests of London to the outside world.

But having seen off New Labour, the Corporation now faces a threat from another quarter, the rapidly expanding complex of offices at Canary Wharf. And, again, the Corporation has struck another deal, this time with London's mayor.

The city has run out of office space. As London has become a powerhouse of global business, alongside New York and Tokyo, so the City can no longer accommodate all the multinationals flocking to London. Vacancy rates are at a historic low, and the price of office space higher than any comparable location in the world. As a result, banks such as HSBC, Morgan Stanley and Lehman Brothers have been decamping to Canary Wharf. About 270,000 people currently work in the City, but there are already another 50,000 working in Canary Wharf.

Vacancy rates are at a historic low, and the price of office space higher than any comparable location in the world

Canary Wharf has land left to expand. The City does not. It can only go up, with skyscrapers, or north-east, over its boundaries. These are both controversial moves. There has traditionally been a lot of opposition to more tall buildings cutting out the famous views of St Paul's Cathedral. And the neighbouring, poorer boroughs have always opposed enormous office blocks supplanting local communities. But, significantly, Mr Livingstone has developed a taste for both. The reason is known as “planning gain”.

A site that is granted planning permission by a local authority automatically gains value. Under legislation passed in 1990, a slice of that increased value can be redistributed in kind to the local community, so

that others, apart from developers, benefit from planning permission. Planning gain is now worth about £8 per square foot in prime locations. On one Corporation development at Old Spitalfields market, the planning gain in social housing for Tower Hamlets was just over £20m. It is, in effect, a ransom paid by developers to be allowed to put up buildings.

The mayor can raise almost no money directly himself, but he does have powers over strategic planning throughout London. He may not have the ultimate say in controversial individual cases. That still rests with the government. But he is allowed to refuse planning permission if he feels the relevant borough has not extracted enough planning gain from the developers. And he can, in co-operation with the borough, influence how the planning gain will be spent.

So the mayor allows the Corporation to put up all its office blocks, which provides him with the money to fulfil his electoral promises of more social housing and accommodation for key workers. In a nice turn, Judith Mayhew sits on the mayor's informal cabinet as his adviser on financial and business affairs. It is a happy alliance. The left-wing mayor can milk the capitalist Corporation for money, while the capitalists get more office space to ward off the challenge of Canary Wharf.

And the Corporation could do very well for Mr Livingstone. It is currently leading a consortium to develop the vast Bishopsgate goods yard, mostly owned by the rail industry, just north of Spitalfields. On the latest estimate, this could yield about 3m square feet of office space, or over £30m of planning gain.

But the Corporation has to pay a price for making deals outside its boundaries of the square mile. In stitching together all its new partnerships, dealing with other boroughs and the mayor, it has found itself in the spotlight as never before. Many of these new developments have been opposed by local groups, which accuse the Corporation of being still secretive, undemocratic and unaccountable.

One successful property developer, used to dealing with the Corporation, accuses it of still being riddled with restrictive practices, and overall “a bit of a nightmare to deal with”. Its finances are very secretive. One city accountant and former Tower Hamlets councillor, Patrick Streeter, calls the City's Cash fund little more than “a slush fund”. Under law, the Corporation is under no obligation to publish details of the fund's assets, but the lack of transparency undermines the trust that the Corporation is trying to win from non-City people who remain immune to the charm of its medieval arrangements. And even the Corporation admits that its voting arrangements are absurd.

The Corporation has staved off execution through a series of clever concessions and ensured its present prosperity by a series of astute political alliances. But as it tries to maintain its position, it is making enemies. And, increasingly, they will test the real appetite that the Corporation has for becoming more transparent. If the Corporation fails to adopt reform, abolition could well creep back on to the agenda.

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Northern Ireland

On the brink, again

Aug 2nd 2001 | DUBLIN
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The bargaining is not yet over

AP

What have you to offer?

THE future of Northern Ireland's power-sharing administration hangs in the balance—but when did it hang anywhere else? This week's proposals by the British and Irish governments were billed as a final effort to save the three-year-old Good Friday Agreement. They looked like only one side of an arrangement. An IRA offer to destroy weapons is needed to complete the deal. The suspicion remains that Tony Blair's government and the republicans still have much bargaining to do.

The other interpretation is that the two governments have despaired of finding a middle way and have come to a shared judgment on what both sides will feel obliged to support, to ward off a descent into the violence of the past. Ministers point to the backdrop of street clashes between Catholics and Protestants, and the loyalist paramilitary violence which has continued through the summer.

As published, the proposals offered less to unionists than to nationalists and republicans. Without a rapid IRA move in response, the position of the Ulster Unionist leader, David Trimble, is bound to be further weakened. He has said he will not return as first minister of the legislative Assembly unless arms are “verifiably put beyond use,” and in advance of the governments' announcement repeatedly said that the proposals would be worthwhile only if they succeeded in making some headway on decommissioning.

If he does not take up his post again by August 12th, the Assembly's rules dictate that a new election for the post must take place. Without IRA decommissioning, Mr Trimble will not gain sufficient unionist support. The government is then faced by having either to suspend devolved government or call new local elections that would probably oust Mr Trimble's Unionists as the biggest unionist party and boost Sinn Fein's fortunes still further.

Mr Trimble's resignation as first minister was an attempt to assuage hardliners in his own party and wrongfoot the rival Democratic Unionists (DUP), led by the Reverend Ian Paisley. But it has gone badly wrong. Both the DUP and Mr Trimble's leading internal critic, Jeffrey Donaldson, have been quick to denounce the proposals for not prescribing how and when IRA decommissioning would happen.

The broad thrust of this week's offer by the two governments outlined movement on policing reform and a programme of demilitarisation, which would include the destruction of army bases and watchtowers in South Armagh. Unionists have opposed both.

In contrast, the section on decommissioning, in essence the unionists' sole demand, simply reiterated the agreement's original formula: that it was an indispensable part of the agreement, and that the matter should be left to the International Commission under General John De Chastelain. Until now the De Chastelain body has had little to report beyond last year's IRA undertaking to open several arms dumps for inspection by two international observers, Cyril Ramaphosa, former leader of the ANC, and Martti Ahtisaari, former premier of Finland.

Though government spokesmen were keen to point out that various points of concern raised by Mr Trimble and other unionists had been answered in the proposals, the republican tilt is unmistakable. Policing reform and demilitarisation are by far the most detailed sections.

A Sinn Fein meeting is due to discuss the proposals later this week. Ulster Unionists will meet next

Monday to give their considered view. The governments have asked for a response from all parties within five days. Clearly the hope is that by then the IRA will have made a move that will at least begin to meet the concerns of Mr Trimble. But it is hard to imagine how anything could satisfy either his internal critics or Mr Paisley's party, both of whom define decommissioning in the widest terms, for example as including the “dismantling of the terrorist structures”.

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Satire

Brass monkeys

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In a row over satire, ministers can only look foolish

IF ANYTHING is worthy of satire, self-important politicians spouting demagogic outrage about the controversy of the day surely must be. In this case, the controversy happens to concern a satire on demagoguery.

Last week a spoof documentary, “Brass Eye”, inspired by the hysteria that surrounds paedophilia in Britain, was broadcast twice by Channel 4. Its creator, Chris Morris, is known for such stunts as persuading an MP to ask a parliamentary question about a fictitious illicit drug, “cake”. This time he managed to con various celebrities into pronouncing wonderfully absurd “facts” about paedophiles, such as the idea that they are genetically nearer to crabs than to other humans. The aim was to lampoon the suggestibility of public figures willing to repeat, with feeling, any nonsense they are told, the bogus gravity of much current-affairs television, the hypocritical voyeurism of media coverage of sex and crime, and a lot else besides. The programme was very funny.

Missing the joke, ministers queued up to denounce Mr Morris and his programme, with all the vigour of the gutter-dwelling tabloids. (Oddly, the government was much quieter when, last year, a newspaper incited a wave of anti-paedophile vigilantism, resulting in attacks on, among others, a paediatrician.) Beverley Hughes, a Home Office minister, excoriated the programme before admitting, as tradition demands, that she had not seen it and did not want to. There is talk of tougher regulation.

Some of Mr Morris's defenders maintain that nothing should be beyond the scope of humour. Perhaps the instant repeat of the programme, reaping the benefits of the furore, makes Channel 4's public-interest defence disingenuous. But you do not need to take a view on issues such as these, or on the merits of the programme, to think that ignorance and crude populism are a bad basis for censorship—or that none of this has anything to do with the government.

All in all, it has been a bad week for the censors. The High Court quashed a Home Office ban on Louis Farrakhan, the inflammatory leader of the Nation of Islam, entering Britain. And the Morris affair has illustrated two of the government's ugliest traits—cravenness, and an authoritarian instinct. Life rarely imitates art so well.

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Britain and the euro

Will they, won't they?

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There are only two possible dates for a euro referendum in this parliament, but of those, the spring of 2003 looks much more realistic

IT IS the most important question facing the government, and the country. British and foreign businesses are keen to know the answer so that they can shape their plans accordingly. Yet Labour's intentions over whether and when Britain will abandon the pound and embrace the euro remain a mystery.

On his trip to Latin America, Tony Blair appeared to raise the hurdle for entry by linking Britain's membership of the single currency to the achievement of economic reform in Europe. Yet only a few days earlier, a front-page report in the *Financial Times* claimed that Mr Blair and Gordon Brown, the chancellor of the exchequer, had drawn up an agreed timetable for a euro referendum either in autumn next year or in spring 2003.

The story prompted a furious rebuttal from the chancellor's camp. A Treasury source dismissed it as “fantasy and garbage”. The ferocity of the response suggests, however, that the story hit a nerve.

Neither Mr Brown nor Mr Blair wants to reveal his hand about when exactly the government might recommend that Britain should join the euro. The two men may agree on that, but not on much else. Mr Blair would very much like to take Britain into the euro as soon as possible, if only he could find a way of overcoming public hostility. Mr Brown, while no closet euro-sceptic, worries more about the economic risks. In particular, he is reluctant to junk his state-of-the-art framework for monetary policy for that of the European Central Bank (ECB), which he regards as inferior.

However, the uncertainty about the government's intentions leaves it dangerously exposed to further internal rows. Whitehall sources say that the prime minister and the chancellor are likely to try to reconcile their differing approaches at a meeting next month in advance of the party conference. An agreement at least on the possible timing of a referendum would help to maintain a common front.

Countdown to the euro?

Early 2003	Entry recommended
May/June 2003	Referendum won
January 2004	Sterling locked to euro
2006	Pound phased out

Source: *The Economist*

The options on timing are actually very limited. Ministers will want to settle the euro issue well before an election, likely in 2005. So the timetable is tight. Joining the euro means that Britain will have to lock the pound against the euro at a fixed conversion rate. Sir Alan Budd, former chief economic adviser to the Treasury, says that this will almost certainly have to be on the first day of the year to coincide with the bank holiday, as occurred with the first wave of euro entrants. He therefore believes that the only practicable day in this Parliament is January 1st 2004.

Before then, much will have to be done. Like the countries already in the monetary union, Britain will have formally to pass the convergence tests set by the Maastricht treaty of 1992. This will require reports from the European Commission and the ECB to the EU's council of finance ministers. The government will have to agree a conversion rate for sterling and the euro with other member countries. It will also have to change the law on the Bank of England in order to comply with the treaty.

This suggests that a euro referendum can be held no later than May or June in 2003. But before a referendum is held, the government must decide whether or not to recommend joining the euro,

following the Treasury's assessment of the chancellor's five economic tests. According to the national changeover plan, at least four months would be needed between that decision and the referendum itself.

This four-month gap appears to rule out a referendum in autumn 2002. Holding the vote then would require the cabinet to give the go-ahead by next June or July at the latest. But this would be just after the introduction of notes and coins into the euro area—which is certain to face logistical problems, and could well prompt a spate of bad publicity about the single currency.

In practice then, only one date looks auspicious for a referendum: the spring of 2003, by which time the euro will (presumably) have settled in as a physical currency. This would require a Treasury verdict on the five tests late next year or early in 2003. At the moment, the government is vague about when the assessment will be undertaken, except that it will be within two years of the election, as Mr Blair promised in February—to the fury, apparently, of Mr Brown. Treasury officials hint, however, that the task could take some time.

The vagueness over the completion date for the Treasury's report is deliberate: it keeps the government's options open. And up till now, it has papered over the cracks between the prime minister and the chancellor. But they may conclude in September that they have little to lose by being more open about their intentions.

As long as public opinion remains strongly hostile, the government will not risk a referendum in this Parliament. But that does not necessarily mean that the Treasury will conclude that Britain does not pass the five tests. Mr Blair's comments in Brazil suggest that the ground is also being prepared for a quite different verdict: that the euro is not yet ready for Britain.

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Working men's clubs

The final frontier

Aug 2nd 2001 | DURHAM AND SEDGLEY
From The Economist print edition

One of the country's most venerable institutions confronts the modern world

WHEN the Reverend Henry Solly, a temperance campaigner, founded the first working men's club in 1862, one of his aims was to keep the membership away from gin palaces. Before long, though, one of the clubs' principal attractions was the plentiful availability of cheap beer. Soon, another of the original functions of working men's clubs might be surrendered. This time the problem is that other old temptation—women. The resulting row encapsulates the changing nature of industrial Britain.

The Club and Institute Union (CIU) represents 2,900 British working men's clubs, which have around 3m members. In about half these clubs, women already enjoy equal rights. In most of the rest, they can't hold office, propose new members or use all of the facilities; in a tiny minority, they are not allowed in at all. The CIU's 100-year-old constitution contributes to this separatism, by preventing women from holding a pass card, which guarantees entry to any club in the land. Kevin Smyth, the CIU's general secretary, is supporting a motion to revoke the relevant clause in the constitution at the union's conference next year. Mr Smyth likens the clause, with all its symbolism, to the Labour Party's clause four (on nationalisation, lest you forget).

Like clause four, this one has many and vociferous supporters, especially in the north-east. At the New Durham Working Men's Club, women are not allowed in the bar (“it's the only place we can escape”, says one member) or to play snooker (unless, say several, they are wearing mini-skirts). There is a widespread fear that if women were given full rights, they would take over (and a slightly contradictory worry that, if they were allowed on to the club committee, they would never agree).

The women who work in the bar and drink in the lounge don't much care for this sort of talk. And it would be easy to sneer at such gender politics. But the club, like many others, provides generous support for local charities, and diversions for pensioners and children. As Bob Wilson, the chairman, points out, it keeps young people off the local crime- and drug-ridden streets. More so, perhaps, than is strictly good for them, the club is a second home for its members. One regular since 1969 says he would stop coming if the rules on women were liberalised. Mr Wilson suspects the whole idea is a plot to raise subscription income.

Nevertheless, there is a lot of fatalism about change. Conversely, at Sedgley Working Men's Club, which, like many in the Midlands, has already given women equal rights, the committee is pessimistic about the chances of securing the two-thirds majority required to alter the constitution. Derek Manford, the chairman, is himself a reformed male chauvinist: he opposed the equal-rights motion nine years ago (to his wife's displeasure), but says that the women have proved their worth by organising raffles, bingo and barbecues. One octogenarian Sedgley member says the club would now be lost without the women (though another heaps calumnies on Emily Pankhurst).

Many working men's clubs have already realised that they have to offer more than cut-price beer, and the occasional stripper, if they are to compete with the theme bars and cheap, imported alcohol that now distract potential members. In the early 1970s there were around 4,000 clubs. As well as reflecting changing consumer tastes, the decline in club numbers mirrors the decline of traditional industries. Some clubs existed specifically to serve local pits and factories: hundreds of pints of beer would be lined up, ready for when the workers came off their shifts.

Changing times

In many areas, those jobs have now disappeared. As one Durham rebel points out, working-class women

now work as hard as, and often earn more than, the men. And they expect to have their share of fun. Evidently, though, some of those men prefer to pretend, at least in the evening, that nothing much has changed.

Some Labour MPs still hold their surgeries in working men's clubs. The row over women's rights illustrates the gulf between Labour's traditional industrial base, and the sophisticated world of feminism and post-feminism that the party leadership inhabits.

On the other hand, it is not only the working classes that have been left behind by the cultural revolution. The working men's debate divides progressives from the traditionalists in much the same way as do the similar battles in the gentlemen's clubs of London. The drinks are more expensive in the Garrick and the Carlton, but the fears and prejudices are much the same. Then again, aficionados of class have long maintained that the upper and lower classes have much more in common with each other than with the volatile mob in the middle.

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Welsh politics

A leaky affair

Aug 2nd 2001 | CARDIFF
From The Economist print edition

The Welsh are warming to devolution despite a series of scandals

WELSH folk, never very keen on devolution in the first place, could be forgiven for giving up on it completely. A police fraud investigation has forced the Welsh Executive's deputy first minister, Mike German, to resign. Meanwhile its members dither about whether to keep building a new parliament since costs went from £28m to anywhere between £37m and £47m. Enough, you might think, to make any patriot think that the whole thing was a waste of time and money. In fact, the Welsh seem to be getting warmer, not cooler, towards the project.

Compared with the Scottish Parliament, the Cardiff body is a poor relation. It cannot raise taxes or pass its own laws. It can only provide Welsh tailoring for laws passed at Westminster. That may be why only 50.3% voted “yes” to set it up in 1997. But four years on, the mood seems to be changing. An opinion poll published on August 3rd found that 62% of the Welsh backed the Assembly.

Still, the poll, conducted by the Welsh centre of governance at the University of Wales, Cardiff, found that people remain sceptical. On public services such as education and health, which the poll says are the voters' priorities, 60% reckon the Assembly has made no improvement. Barry Jones, who conducted the poll, thinks that one reason why support for the idea at least is growing is that a lot of people believe Wales now has a louder voice in British politics. His poll found that 46% believed the Assembly gives Wales more lobbying power with the government.

Mr Jones also points out that things have improved a lot since the Assembly's first days in 1999. Then, a minority Labour administration struggled to get anything done, especially since it was led by the unpopular Alun Michael. But last year Mr Michael was replaced as first minister by the popular Rhodri Morgan. The Liberal Democrats trusted him enough to join Labour in a coalition with a workable majority.

But the optimism of Mr Morgan's early days now seems to have been replaced by doubts. The Assembly, housed in cramped offices in Cardiff's swanky new bay development, has fired Lord Rogers, the architect who was to build it a new home. A deeper crisis surrounds the coalition. Mr German's resignation came when police started probing expenses he claimed in his previous job in Welsh education. Mr German, a Liberal Democrat, is confident that he will be cleared and will be able to reclaim his old cabinet job. But if this happens, Mr Morgan may face a rebellion. It seems that Mr German's problems were caused by anti-coalition Labourites leaking reports criticising his behaviour.

Mr Morgan maintains that the coalition has been a great success, providing the stability needed to deliver such things as free milk for young schoolchildren, and free eye tests and dental check-ups. But asked whether the coalition will survive until the next elections in 2003, he says carefully: “I am as confident as any other leader of any other coalition can be. You never know what's going to happen.”

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Dietary supplements

Kelp power

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People want herbal treatments to be groovy, not proven

GARLIC has lost its old allure. It was once famed for its healing powers, and taken to cure a wide range of diseases. But this mundane vegetable is now deeply unfashionable, for Britain is consuming a more bizarre range of herbal supplements than ever before.

High-street stores stock potions made of snakeroot, kelp and fenugreek, an Asian herb. One firm markets Adipovascolen, made of seaweed, borage oil and fish oil, which it claims is the first-ever treatment for male paunches. Another company says it can boost energy levels with Siberian ginseng and guarana, a Latin American berry. Sales of drugs made from echinacea, a previously obscure native American plant, grew by 221% last year, while more familiar remedies like cod-liver oil and royal jelly have been struggling to maintain their market share.

In no other branch of medicine do cures for diseases go in and out of fashion so rapidly. But then, herbal treatments are not medicines at all. Strictly speaking, they are dietary supplements: if they were classed as medicines, they would need exhaustive scientific testing. The rapidly growing market in peculiar things that are neither foods nor medicines worries some doctors. They are calling for evidence of efficacy and safety before herbal treatments are sold.

Others say it is irrelevant that the biological effect of the plant pills is not understood. “It's like saying that nobody knows what a carrot is,” says Derek Shrimpton, a consultant who advises health food manufacturers. “This is a market that has been in existence for centuries: all that is different is the promotion.”

Nonetheless, the pills' status as foods is not something the supplements industry is altogether happy about. For one thing, it bars them from making any direct claim about the health benefits of their product. But the problem is a practical one. Testing medicines is enormously costly: to try and do the same with herbal cures would quickly bankrupt the smaller firms that make them. And since no patent can be issued on Ginko Biloba or St John's Wort, there is no advantage to any company which pays to test natural drugs.

Admittedly, the range of new potions is bewildering, but there is little evidence that they do much harm. Equally unproven is whether there is any benefit to public health from a business which is worth an estimated £194m per year. A leaflet produced by the Health Supplements Information Service, which speaks for the industry, frankly admits that the claim that “dietary supplements are unnecessary and a waste of money” may be “partly true”. But if people choose to spend their money trying wild yam cream, or extract of milk thistle, why not let them?

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Fast container ships

How to shrink the world

Aug 2nd 2001
From The Economist print edition

Could container ships as fast as speedboats soon shorten global supply chains? A transport revolution is waiting to happen

IN A small office on the Philadelphia waterfront, a few entrepreneurs are trying to launch a dream. As they look out of their windows they can envisage a totally new kind of ship coming up the Delaware River after crossing the Atlantic from France. FastShip Atlantic is trying to raise $2 billion to bring shipping into the jet age, with an express container-ship service between the cradle of American democracy and Cherbourg, a faded port in north-west France that was once a bustling hub for transatlantic passenger liners.

The jet age that sank passenger liners has so far failed to take hold on the ocean. The Boeing 707 jet transformed aviation because it could fly faster, farther and higher than propeller-driven aircraft, clear of storms and turbulence. Some fast ships have been developed, but these are mostly passenger ferries. The big container ships that carry most of the world's long-haul manufactured exports (by weight) travel at 23 knots (26.5 miles an hour) at best, and barely 17 knots in heavy weather.

Ever since the Vikings built their longboats it has been accepted that the way to move quickly across water is to have long, thin boats. This is because the faster a ship travels, the more water it drags along with it. Not only does this drag consume much energy, it causes high-speed vessels to squat low in the water, pulled down behind the “captive wave” at the bow. Propellers vibrate at high speeds, causing shocks that can break hulls. Hydrofoils that lift the hull out of the water and use water jets are fine for passenger ferries, but not for big, heavy container ships.

Air freight offers speed for the 40% of the world's trade (by value) that travels in cargo flights or in the hold of passenger aircraft, but it costs ten times more than sea transport. This is fine for flying tiny microchips into Europe or America from Asia, but too expensive for clunkier goods. So cargoes of cars and car parts, tractors, cookers and washing machines still travel at about the speed of a running man. It takes a ship full of car parts a week or more to cross the Atlantic and around three weeks to go from Asia to Europe. In effect, this ties up working capital in floating stock.

With companies increasingly seeking taut but flexible global supply chains, this sluggishness is annoying. FastShip Atlantic is the furthest advanced of a number of companies that think they have the solution to this problem. It has already signed up CP Ships, part of Canadian Pacific, a transport group, and the biggest transatlantic container line. Rolls-Royce will provide marine versions of its huge Trent aero engines to drive the water jets that will propel FastShip's vessels. An American logistics group is already working on the port terminal at Cherbourg. Kvaerner, a European shipbuilding and engineering firm, has agreed to build the first four ships at its Philadelphia yard. Other big industrial partners are involved but do not yet want their names linked with the project.

FastShip's speedy vessels (see picture) would carry about 1,400 containers, compared with up to 7,000 for today's sluggish giants of the seas. The company aims to run its ships at speeds of up to 38 knots in all weathers. To achieve such a performance, the ships will rely not on their mighty jet engines, nor on being long and thin, but on a revolutionary design to slice through the waves and float above the ocean's drag. The design has been licensed from David Giles, a British aeronautical engineer turned ship designer. Mr Giles's solution to the drag problem is a sharp bow that cuts through waves up to 40 feet high, and a concave hull bottom. This creates a wave at the stern, which prevents the vessel squatting too low in the water. The stern wave lifts the vessel, enabling it to plane along the water. The result is a tubby vessel that is stable and fast in rough seas. It has already been tried out in smaller naval vessels and in tank tests.

FastShip has another idea to speed up its service. It uses a roll-on, roll-off system to transfer containers between trains and ships. This is much faster than cranes, and the company claims it reduces turn-round time in port from 16 hours to six. It hopes that companies will be attracted to a service that offers seven-day, door-to-door delivery for half the price of air freight delivery of four to six days.

But despite the obvious advantages of moving cargo around the world quickly by sea, FastShip's journey from business plan to launch is proving slow. Formed in 1993 by Mr Giles's firm, Thornycroft Giles, to commercialise a design that had failed to catch on with the British Royal Navy, it had hoped to get ships in service by last year. But it has yet to raise all the money it needs. FastShip's president, Roland Bullard, travels the world trying to whip up equity investment, with the help of J.P. Morgan Chase. FastShip is also seeking loan guarantees from the American government to lower its cost of capital, but the Bush administration seems reluctant to offer subsidies to shipbuilders.

A fast container-ship project was tried in America several years ago, but the vessels' fuel-guzzling made them uneconomic, especially once OPEC tripled the price of oil. And they performed poorly in bad weather. Will it be different this time? Two European companies and one American company are working on rival designs to FastShip's, including multi-hulled vessels. They believe that, given the demands of a globalised, Internet-speed economy, container ships might soon be whizzing like speedboats. Who knows? They might even be right.

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Developing giant airships

Big birds

Aug 2nd 2001 | BRAND
From The Economist print edition

Can airships make a comeback as heavy lifters?

A JOURNEY to Brand airfield, some 60km (37 miles) south of Berlin, could almost be a trip back in time. The level-crossing nearby is operated manually. The huge airfield is dotted with 42 hangars, still camouflaged, that once housed Soviet MIGs. And the business of the airfield's new owner, CargoLifter, is the development of giant airships, a means of transport few have taken seriously since the Hindenburg went up in flames in 1937.

The time-warp feeling ends when a gigantic space-age dome, 360 metres long and 107 metres high, comes into view. This is the hangar out of which CargoLifter's CL-160 will emerge in 2003. Several companies are convinced that airships are ripe for a comeback, including the venerable Zeppelin Luftschifftechnik, whose new craft recently won clearance to carry passengers, a dozen at a time. CargoLifter's plans, however, are the most monumental.

The idea is to carry not people, but cargo: heavy loads, such as turbines, or bulky ones, such as segments of oil refineries. It is a big gamble. The cost of development is *euro*590m ($505m), says Carl von Gablenz, CargoLifter's chief executive. But once the CL-160 is airborne, the cost of building extra ships should be low. The cost of carrying a load (up to 160 tonnes, at 50 mph) should also be low compared with planes or lorries.

Does enough demand exist? The global market for big loads is around 30m tonnes a year. To serve even 10% of that would require 200 airships; CargoLifter could build only four a year in one hangar. “The market is so big,” says Mr von Gablenz. “The problem is to build up the capacity.”

So far, around half of the development costs have been raised. Subsidies paid for half the cost of the hangar (because Brand is in down-at-heel eastern Germany). Investors snapped up private share issues, and an initial public offering last year raised *euro*96m; CargoLifter is now among Germany's 100 biggest firms by market capitalisation. Despite a weak stockmarket, Mr von Gablenz hopes to raise more money this year.

Are his investors backing another Hindenburg? Modern airships are different beasts: they use helium, not flammable hydrogen, and are wrapped in sturdy material. If the CL-160 is successful as well as safe, journalists might one day be able to write about airships without using the H-word. But not yet.

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Pirelli buys Telecom Italia

Plenty of bravado, but not bravo

Aug 2nd 2001 | ROME
From The Economist print edition

A risky move into telecoms has upset a lot of shareholders

PIRELLI'S shareholders see nothing to cheer about. Shares in the Italian tyres and cables group lost over one-sixth of their value on July 30th, as the market said what it thought about the firm's big move into telecommunications, announced over the weekend. Flanked by the Benetton family's Edizione Holding, Pirelli has acquired a 27% stake in Olivetti, giving it effective control over the company that in turn pulls the strings at Telecom Italia, Italy's leading telecoms group.

Investors had been expecting something different from Marco Tronchetti Provera, Pirelli's chairman. Some had hoped to get their hands on the cash pile amassed from Pirelli's sale last year of two optical businesses for $6 billion, at the top of the market. Few thought Mr Tronchetti Provera would spend their money to take control of a telecoms giant. To rub salt into shareholders' wounds, Pirelli agreed to pay *euro*4.18 ($3.66) per Olivetti share, a premium of about 80% over the price just before the deal was announced.

Mr Tronchetti Provera says he has had his eye on Telecom Italia for some time, and also insists that he has not overpaid. Still, Pirelli will have a job convincing critics that buying the stake in Telecom Italia is part of a bold new strategy aimed at changing the group radically, rather than opportunistic empire-building. Unfortunately for its shareholders, under Italian law Pirelli is barred from giving details of its plans for Telecom Italia until the deal receives regulatory approval.

Pirelli says it will now concentrate on cable technology and fibre-optic components, which together accounted for 19% of its sales last year, and also on telecoms services. The company also intends to keep its car and motorcycle tyre activities, on the grounds that these, like telecoms, are technology-intensive and can generate high returns. Some analysts, however, think that the tyre business will eventually be split off or sold.

Pirelli's arrival may bring stability to Telecom Italia. When the telecoms group was privatised at the end of 1997, the treasury ministry thought it had assembled a stable core of shareholders. This was an illusion. In February 1999, a group of businessmen from Brescia, a city east of Milan, launched a successful hostile bid using Olivetti as the takeover vehicle. Olivetti's boss, Roberto Colaninno, became Telecom Italia's chairman and chief executive.

In order to win control of Telecom Italia, however, Olivetti saddled itself with enormous amounts of debt. Moreover, shareholders of Bell, the vehicle through which Olivetti was controlled, saw the transaction as an opportunity to make a profit quickly, rather than as a long-term industrial investment. With Olivetti's share price languishing, the Brescians were happy to accept Pirelli's generous offer and cash in their big gains, refusing to get into talks with France Telecom and Deutsche Telekom, which had been sniffing around Telecom Italia. “The structure of the 1999 takeover was fragile,” says Domenico Siniscalco, an economist and member of Telecom Italia's board from June 1999 to May this year.

Telecom Italia's new bosses have inherited the huge debts that Olivetti took on. To deal with this millstone, Pirelli will need to do much more than merely service it using Telecom Italia's dividend flows. Mr Tronchetti Provera says that he has clear ideas for reducing the debt, but cannot reveal them yet.

Mr Colaninno's attempts to tackle the debt caused big rows with minority shareholders, who reckoned they were being given a raw deal. Mr Tronchetti Provera has even more minority shareholders to keep sweet. Two listed companies stand above Pirelli SpA in a corporate “cascade”. And Telecom Italia, which sits below the unlisted acquisition vehicle and listed Olivetti, has majority stakes in two other large listed companies: TIM, a mobile-phone operator, and Seat Pagine Gialle, a directories firm.

Control on the cheap

To win control over Telecom Italia, Pirelli exploited the preference of Italy's business barons for cascaded stakes that give control with the least possible commitment of capital. Public tender offers are obligatory only if a shareholding exceeds 30%. By limiting their stake in Olivetti to 27%, Pirelli and its allies avoided having to make an offer to all shareholders in Olivetti, and for the market float in Telecom Italia and its listed subsidiaries. This would have been fair to minority shareholders. But, reasons Mr Tronchetti Provera, it would have cost *euro*100 billion and nobody would finance such an operation.

According to Mr Siniscalco, such unfairness to small shareholders needs to be eliminated, urgently. “Pirelli behaved rationally, but the treatment of minorities is outrageous. This is a way to kill a market. The operation will have far-reaching effects on how the international investment community treats Italy,” he says. Pirelli's chairman has clear views on minority shareholders, too. “They may come and go as they please, like any shareholder,” he remarks. This week, many of Pirelli's shareholders decided to go.

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Selling second-hand cars to Africa

On the road

Aug 2nd 2001 | NEW YORK
From The Economist print edition

An unlikely new force in the automotive business

AP

Good to have, better to sell

SALES of cars up 200%, profits up 50%. Numbers like these were last reported in the car industry too long ago to recall. So when ACLN, a curious company boasting this kind of performance, quietly listed its shares in New York on July 18th, at a time when no share seems to be doing well, even jaded traders took a second look.

The company, not surprisingly, is hardly conventional. It has all of ten employees. Its name is loosely derived from a company once based in Monaco, its legal home is in Cyprus, its chief financial officer is in Los Angeles, its chief executive is in Antwerp and the company does most of its business in Africa. ACLN is as successful as it is dispersed. Revenues in 2000 were $168m and net income $43m, reflecting margins other car groups would kill for. Monthly sales are now running at 20,000 cars, up from 6,000 at this time last year.

So what exactly does ACLN do? Its success rests on the most basic form of international trade: arbitrage between national markets. In this case, it is between car sales in rich countries, which are (for the most part) competitive and efficient, and sales in Africa, which are neither. This became abundantly clear to the company's founder and chief executive, Aldo Labiad, in the late 1970s when, as an economics student in Europe, he was asked by his family to bring a used car with him when returning home to Tunisia. The car turned out to be good to have but better to sell.

There is little car production in Africa, and the big importers such as DaimlerChrysler and VW focus on the rare wealthy buyer. A huge market exists for cheap cars. ACLN provides 65% of North and West Africa's used-car market and has begun reselling new South Korean-made models that failed to find buyers in Europe.

The logistics of this business are tricky. Orders were placed last year by 14,000 different customers. Cars can come from Germany, the Netherlands, Belgium or America, depending on local prices and the level of currencies. They are then shipped to any of 14 different African ports including Tripoli, Benghazi, Tema and Conakry. Volume can change abruptly if there is, say, a coup, a change of tariff or even a stroke of luck. Last year, the biggest sales were to dealers in Tunisia and Benin. This year, Nigeria has been particularly strong, largely because of two big oil discoveries.

Getting through customs is an art in itself, and collecting money can take months. Even so, the returns make the effort worthwhile. ACLN charges $600 to $1,100 to ship a used car to Africa, and after expenses retains as much as 30%, estimates Chrystyna Bedrij, an analyst with Griffin Securities in New York. On new cars, the margin is slightly lower but the size of each transaction is far larger. Small wonder that ACLN, founded with $10,000 in 1978, is now valued at $500m.

Recently, the company acquired its first real asset, a second-hand boat, for $6.5m. This could push the shipping cost for each car below $100. Given ACLN's history, however, there is always a chance that it could find even more promise in the market for used freighters.

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CNN in the doldrums

The network's not working

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Short of a war, what can revive the fortunes of CNN?

“THE news, without the noise” goes a catchphrase CNN is using to launch a revamped CNN Headline News, its non-stop news network, on August 6th. “Noise, in search of news” might be the unkind riposte. The 24-hour cable news network, which began life in 1980 as a plucky, shoestring operation battling against the media giants, is in trouble. Now itself a division of one of those media giants, AOL Time Warner, can CNN be revived?

CNN's current difficulties stem from its success. By inventing the radical idea of round-the-clock news, it created a market into which others tramped. In particular, Fox News Channel, part of News Corporation, and MSNBC, a joint venture between Microsoft and General Electric's NBC, have pinched audiences from CNN since they each launched in 1996. In the second quarter of this year, the number of viewers watching CNN dropped 2% from the same period last year, while the figure leapt at Fox News by 62% and at MSNBC by 25%.

These upstart cable channels burst into 24-hour news at a time when CNN had begun to look staid. By driving news unapologetically downmarket, broadcasting high-decibel talk shows and dressing up gossip and entertainment as news, the new channels appeared racier. They have applied this trick to some unlikely corners. CNBC, NBC's slick business-news channel, for instance, has turned coverage of stockmarkets into a breathless motor-racing-style commentary and bred a new variety of devoted business-news junky. “We humanise market news,” explains Pamela Thomas-Graham, head of CNBC.

CNN has begun to punch back. AOL Time Warner has overhauled both the management team and the structure. In March, it gathered together the WB network, part-owned by Warner Brothers, and all the Turner Broadcasting operations, including CNN, into one television-network division. It also pushed aside some loyal veterans from Ted Turner's founding days, and installed Jamie Kellner, an entertainment man who helped to dream up both WB and Fox, to run the new division. Last month, the corporate bosses dispatched Walter Isaacson, editorial director at Time Inc in New York, to Atlanta to sort out CNN. Mr Isaacson is credited with enlivening *Time* magazine by putting Hollywood stars on the cover.

There seem to be two prongs to the rescue plan. One is an efficiency drive. With 42 foreign bureaus and 1,000 overseas staff, CNN is a costly operation. In January, AOL Time Warner sacked 400 CNN staff, or nearly 10% of its total payroll. And the group has given CNN demanding revenue targets, at a time when advertising spending is drying up and media margins are being squeezed everywhere. The parent group buries all CNN financial information inside its general networks division. But Goldman Sachs, an investment bank, recently cut its estimates of CNN's global revenues for 2001 by 10%, to $1.3 billion.

The second part of the rescue plan is an effort to inject new vigour into the mix and presentation of news. Hence the new look for Headline News—“real news, real fast”—and the decision to hire Andrea Thompson, an actress from “NYPD Blue”, a cop series, as one of the new Headline News anchors. Hence too the successful bid to lure back Lou Dobbs in May to present “Moneyline”, CNN's flagship evening business show—though even that programme is still being outshone by CNBC's “Business Center”, which has grabbed an average of a quarter more viewers each week than “Moneyline” since Mr Dobbs's return. To sharpen the identity of its own financial channel, CNNfn is to be relaunched later this year as CNN Money.

CNN bosses insist their plan to make stories more “dynamic” does not represent a drift towards a more populist, tabloid CNN at the expense of hard news. However, viewers who have witnessed CNN's recent saturation speculation about Chandra Levy, a missing Washington intern, and her relationship with Gary Condit, a Democratic congressman, might be forgiven for concluding otherwise.

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About sponsorship

Changing fuel-economy standards

CAFE leaves a bitter taste

Aug 2nd 2001 | DETROIT
From The Economist print edition

The problem with setting gas-guzzling limits

WHEN George Bush was running for office last year, it didn't take much to win campaign contributions from Detroit's car makers. Unlike his “green” opponent, Al Gore, the former Texas oilman seemed certain to resist calls for a tightening of federal fuel-economy standards. But that was before the rise in oil prices in the spring. Together with pushing through oil-drilling in Alaska, President Bush asked the National Academy of Sciences to consider whether the Corporate Average Fuel Economy (CAFE) standard should be raised. Much to Detroit's chagrin, on July 31st the panel suggested it should rise by up to 47% over the next 10-15 years. The debate now moves to Congress, and could turn bloody.

Established after the first Middle East oil crisis in 1975, CAFE now requires the average passenger car to go 27.5 miles per American gallon (11.7 kilometres to a litre), while light trucks need to go only 20.7 miles. But the law has loopholes large enough to drive a Ford Explorer through. Indeed, America's wildly popular sport-utility vehicles (SUVs) qualify for the lower standard. With “light trucks” accounting for half of American motor-vehicle sales, the typical new vehicle now does fewer miles per gallon than at any time since the early 1980s.

General Motors and DaimlerChrysler are particularly vexed by the idea of a stronger CAFE. They argue that higher mileage per gallon will result in smaller and less safe vehicles. That is a possibility, but experts believe they can use new technology to make big vehicles more fuel-efficient.

Detroit must be hoping so, as SUVs and pick-ups make up the bulk of its profits. To make matters worse, Japanese manufacturers are launching a wave of new light trucks that will not be affected by CAFE's tightening. Toyota, Nissan and Honda have earned so many credits under the arcane law (by beating past limits) that they could keep building gas-guzzling trucks for years after a big increase in the fuel-economy limit.

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Kirch and Formula One

Bumpy road ahead

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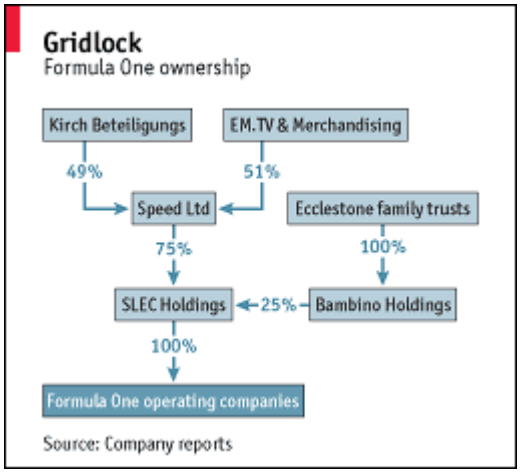
From The Economist print edition

Germans appear to be much better at driving in Formula One than investing in it

ON THE last weekend of July, thousands of Germans flocked to the Formula One (F1) grand prix at Hockenheim in Germany and saw their compatriot, Ralf Schumacher, win for a team whose engine supplier and main sponsor is BMW, a Munich-based car maker.

Off the track, too, Germans are seemingly in the driving seat. EM.TV, a quoted German media group, and Kirch, owned by Leo Kirch, a German media magnate, own 75% of SLEC Holdings, a group of companies that holds a large part of the rights to F1, through a company called Speed. The remaining 25% of SLEC is held by Bambino Holdings, a company owned by trusts set up by the family of Bernie Ecclestone, a British entrepreneur who has been a dominant figure in the sport since the mid-1970s (see chart).



EM.TV bought 50% of SLEC in May last year, just before its shares began to nose-dive. In March, Mr Kirch helped rescue EM.TV by handing it $550m for 49% of Speed, through which EM.TV had an option to buy a further 25% of SLEC from Bambino Holdings. Mr Kirch also funded Speed's exercise of this option by borrowing $1 billion, which he then lent to Speed.

The transaction was structured in this complex way to avoid having to seek immediate approval from the Ecclestone family trustees for a change of control in Speed's ownership. (Such a change would have occurred if Mr Kirch had paid for the option by buying new shares in Speed instead of lending it money.) At the time, Kirch denied comments made by Mr Ecclestone that his family's trustees had the power to veto a change of control.

In September, Mr Kirch can convert his loan to Speed into another 28% of Speed's shares. This would give him a controlling stake of 77% in Speed, a majority holding in SLEC and thus effective control of F1. But, despite comments to the contrary in March, Mr Kirch needs consent from the Ecclestone trustees to do this. A Kirch spokesman says that Mr Ecclestone has confirmed that consent will be given. The company declines to say what would happen if this consent were not forthcoming.

Mr Kirch will be hoping that it is. He has enough financial headaches in another part of his empire. His struggling pay-TV network, which has pay-TV rights to F1, made a whopping loss of DM2.5 billion ($1.1 billion) in the year to June.

On top of this, Mr Kirch has suffered an apparent setback in the relationship with EM.TV. A key element of his rescue was the acquisition of a large chunk of EM.TV's voting rights. This would have given him a big say over EM.TV's stake in Speed. But EM.TV has failed to meet one of the conditions laid down by the German antitrust authorities for their approval of this aspect of the deal.

There may be even worse news for Mr Kirch. Late last month, Thomas Haffa, a founder of EM.TV, agreed to sell 25.1% of the company to Werner Klatten, an executive in Germany's Spiegel Verlag publishing group. As a result, Kirch says it will now be acquiring a far smaller percentage of EM.TV voting rights than originally planned. Mr Klatten, who used to head one of Mr Kirch's Tv channels, has dismissed speculation that he is buying the shares on behalf of Mr Kirch. If Mr Klatten is telling the truth, Mr Kirch will have less influence over EM.TV than he hoped for when he launched the rescue.

Even if he does gain control of F1, Mr Kirch faces several challenges. Not only has he borrowed heavily to buy his stake in SLEC, but SLEC itself is in debt. It owes around $1.4 billion from a bond issue in June 1999, most of which passed to the Ecclestone trusts. This is to be repaid by 2010.

SLEC's profitable revenue streams underpinned the bond issue. It receives a fat share of F1's revenues under the Concorde Agreement, a ten-year deal expiring at the end of 2007 that governs the relationship between the F1 teams and SLEC. The teams receive only 47% of the gross television revenues, which were $241m in 1999. SLEC retains all of the highly profitable fees paid by promoters to stage grand prix. These came to nearly $200m last year.

But these revenues are now under threat from large car makers, four of which have bought into or set up F1 teams since 1998. A consortium of car makers (BMW, DaimlerChrysler, Fiat, Ford and Renault) has threatened to set up a rival championship in 2008. This move would kill the current series, to which the F1 teams are contractually bound until 2007.

The car makers have objected to the prospect of Mr Kirch taking control of F1,ostensiblyon the grounds that he may try to transfer coverage of the sport from free-to-air to pay-TV. But their real concern is the meagre share of F1's revenues that the teams receive.

After much wrangling, Mr Ecclestone and the F1 teams signed the current Concorde Agreement in 1998. Mr Ecclestone mainly negotiated it not with big car companies but with the less careful entrepreneurs who then owned the teams, getting a very good deal in the process. “We were plonkers to sign,” says one team owner.

The teams, now led by the car makers, are unlikely to be so susceptible to persuasion next time round. Even without the threat of a breakaway, the car makers were bound to demand a bigger slice of the gross television revenues, as well as sizeable chunks of the promoters' fees.

Kirch at a crossroads

Where does all this leave Mr Kirch? Vulnerable, in short. He has paid out $1.54 billion but has not yet gained control of F1. And even if he does, he faces the prospect of giving a larger share of its revenues to the teams, to keep them from setting up their own series.

If a breakaway were to happen in 2008, SLEC's cashflow would soon dry up. Although it owns part of the rights to the sport until 2110, these would be virtually worthless without the current teams. Mr Kirch's stake in F1 would be worthless, too.

Just how vulnerable Mr Kirch is depends on how serious the car makers are about establishing a rival series. There are clearly formidable practical and commercial problems in doing so. But the car makers insist that they are not bluffing, and are in the process of setting up a company to run the series. Max Mosley, president of the sport's governing body, believes it is possible to establish a rival: “One would be deluding oneself to imagine that the manufacturers could not do what they wanted to do if they were to set their minds to it,” he said recently. But he still predicted the “overwhelming probability” of a deal between the car makers, Mr Kirch and Mr Ecclestone.

Unlike Mr Kirch, Mr Ecclestone has barely any financial worries. His family has raised more than $3 billion in cash from SLEC, partly from selling big stakes in the group, and still owns 25% of it. And for the foreseeable future, he will remain F1's chief executive.

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Face value

A smoother ride

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United's failure to merge with US Airways is good news for Don Carty, American Airlines' boss

WHEN that streetwise bruiser Bob Crandall was chief executive at American Airlines and Don Carty was his number two, executives on their way to see the boss used to stop by Mr Carty's office to try out their pitch. They wanted advice on how the mercurial Mr Crandall would react. But since Mr Carty took the top job, there has been no need for such an intermediary, for his style is altogether different.

In person, the contrast between the driven, gravel-voiced Mr Crandall, who smoked as enthusiastically as he sailed and jogged, and the mild-mannered Canadian could not be greater. Differences in strategy are also apparent. Mr Crandall, fed up with poor profitability and truculent pilots, contemplated at one time selling all of American's aircraft and concentrating on its more profitable airline-reservations business, known as Sabre. But Mr Carty has presided over an expansion of the airline by buying troubled TWA.

On top of this are differences in the day-to-day running of the business. Mr Crandall was a hands-on boss who liked to delve right down into detail. Since Mr Carty took the top slot just over three years ago he has not even tried to fill Mr Crandall's shoes. “I am more inclined to delegate and hold people accountable,” he says.

The manner may be more relaxed, but it has not stopped Mr Carty from some hyperactive manoeuvring in the past year. American became the biggest airline in the world with its purchase of TWA, completed in April (see chart). When rival United Airlines launched its proposal for a friendly takeover of struggling US Airways in May 2000, Mr Carty quickly realised that the combination would be a threat. So he started looking at other airlines to buy. “We analysed everything with wings,” he says.

Mr Carty liked the look of TWA's assets, but not its liabilities. So talks last year about merging failed. But when Bill Compton, boss of TWA, told him late last year that the airline was going bust, Mr Carty saw how to get the good without the bad: let TWA go bankrupt, then buy it shorn of debt. The plan worked, and even America's hawkish regulators approved, not least because the deal rescued a company with 22,000 employees.

Top slot
Total scheduled passenger-kilometres flown
2000, bn

American Airlines*	231.3
United Airlines	204.2
Delta Air Lines	173.4
Northwest Airlines	127.3
British Airways	118.9
Continental	96.9
Lufthansa	94.2
Air France	91.8
Japan Airlines	89.0
US Airways	75.4

Source: IATA *Includes TWA

With that merger under his belt, the wily Mr Carty spotted that he could get hold of parts of US Airways' network to strengthen his group's presence in the north-eastern United States. He knew that United was keen to make divestments in a bid to win approval for its takeover of US Airways, so he offered to buy some routes from US Airways to make the deal more palatable to antitrust officials. That may not happen now that United has lost its struggle for regulatory approval of its takeover, but it spares Mr Carty from investing $1.2 billion while the industry is in recession. Either way, American emerges from the latest consolidation two-step as the clear winner.

Pilot terror

Nevertheless, Mr Carty faces daunting challenges. First, he must integrate TWA with American. Airline mergers are particularly disaster-prone, partly because pilots squabble over the seniority system that governs their pay. Since American's pilots' contract is up for renewal in a climate of militancy, this negotiation could be delicate. But Mr Carty is sure to approach it less belligerently than his predecessor, who complained that pilots had a squadron mentality, more loyal to each other than to the airline.

Mr Carty's next negotiating challenge also provides an opportunity for a contrast with Mr Crandall. He must convince antitrust authorities in Brussels and Washington that American and British Airways (BA) should be allowed to merge their transatlantic operations, pooling revenues, integrating flights and co-ordinating fares. To do so, he and BA's chief executive, Rod Eddington, must cut through a thicket of aeropolitics.

This deal was first floated in 1996 by Mr Crandall and the then boss of BA, Robert Ayling, only for it to be blocked by the European Commission, which insisted that the airlines cede 267 weekly slots at London's Heathrow airport before it would approve the deal. America's federal authorities made it plain that they wanted a liberal open-skies pact with Britain as their price for giving antitrust immunity for such collusion. The deal duly collapsed, and Messrs Crandall and Ayling were widely blamed for failing to strike a conciliatory enough tone with the regulators.

“Last time we made mistakes,” admits Mr Carty. “We didn't take the EU seriously enough.” With European governments recently accepting a recommendation by the EU's competition commissioner, Mario Monti, to block the merger of General Electric and Honeywell, Messrs Carty and Eddington are taking Brussels very seriously indeed, as they prepare to launch a second attempt to win approval. Executives from both airlines have met Mr Monti's staff to prepare the ground. They argue that the emergence of strong airline alliances, such as Star, led by United and Lufthansa, has changed the nature of competition. Star now has a strong presence at Heathrow through its British member, bmi (formerly British Midland).

Mr Carty has been to Brussels to press these points quietly with Mr Monti, rather than proceed in the bull-headed manner that failed for Mr Crandall. If American and BA get their virtual merger past the regulators this time, Mr Carty's calm, diplomatic style will have had much to do with it. Not that his technique always works. Despite his big role as a fundraiser for George Bush, the administration is appealing against a recent court decision in an antitrust case that went American's way. Good relations with Washington and Brussels will help, but only up to a point.

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About sponsorship

Investment banks

Living in leaner times

Aug 2nd 2001
From The Economist print edition

Greed is no longer good—or, more to the point, viable. How to reduce investment bankers' expectations of plenty in a pinched age

HIGHLY paid investment bankers—once dubbed the Masters of the Universe—are on the danger list. They are being folded back into the humble clay of financial services from whence they sprang in the 1980s.

Two signs. First, last week, Dresdner Bank, now part of the Allianz insurance group, said that its investment bank, Dresdner Kleinwort Wasserstein, would be merged into Dresdner's overall banking operation, with the loss of 1,500 jobs. No more talk of “autonomy” and of an initial public offering (IPO) for the investment bankers that was promised last April Fool's Day, when Allianz announced its takeover. Second, a new boss at CSFB, the investment bank owned by the Credit Suisse group, aims to scale down lucrative contracts and disband “fiefdoms”. What prompted this attack upon the Masters?

The markets that traditionally make investment banks most money—equities, and mergers and acquisitions—are in the dumps. Several top-tier firms report tumbling profits and are laying off staff. Only a handful, notably Deutsche Bank and Lehman Brothers, both stronger in bonds than in equities, are hiring—at far less (25-30% less, some say) than they had to pay last year. Don't shed a tear just yet. A seasoned managing director of corporate finance can still earn up to $6m a year. But the days of bidding wars and bonuses guaranteed for two or even three years are suddenly over.

Now, indeed, is a good time to “manage down” the expectations of investment bankers. Dresdner has done so with a vengeance. The staff of Wasserstein Perella, a merger-advisory “boutique” that Dresdner bought last year for $1.4 billion, are said to be “furious” that they now cannot sell themselves again by means of an IPO. Will some of them, including its co-founder, Bruce Wasserstein, walk out? Dresdner is prepared to take the risk.

So, too, is John Mack, a former boss of Morgan Stanley who has just been made chief executive of CSFB. As part of his expectation management, he has asked staff voluntarily to tear up the three-year contracts that some of them had signed under a previous regime. Mr Mack's predecessor, Allen Wheat, who was jettisoned on July 12th, had signed these contracts to keep precious bankers in place, such as those included in the purchase last year of a smaller American investment bank, Donaldson, Lufkin & Jenrette. Mr Wheat had overseen an increase in CSFB's staff from 5,000 to 28,000 in five years, and had signed separate profit-share deals with many business groups to make them stay. That drove CSFB's salary costs ten percentage points above an already fearsome average on Wall Street, of 50% of a bank's revenue. It also created bitter jealousies among departments. Mr Mack says his two main tasks are to cut

staff costs, and to get them to “read from the same page”. He will no doubt appeal to employees to consider the firm's greater good. Yet few on Wall Street expect bankers to hand back a promise to them of three years of “bonuses”.

This is nevertheless a watershed. These days, even top-tier investment banks, such as Goldman Sachs and Morgan Stanley, are losing business to integrated banking groups led by Citigroup, J.P. Morgan Chase and Deutsche Bank. The business is lost because big banking groups can use their strong balance sheets to offer loans and other products requiring a top credit rating, along with the usual investment-banking services. Bank of America, for one, offers loans to companies on the understanding that other investment-banking mandates will follow.

The stand-alone investment bank, which seemed a market-beating model just a couple of years ago, is now looking slightly battered. One reason is growing public concern at conflicts of interest within investment banks. They are regarded, suspiciously, as “deal-machines”.

Certainly, regulators are scrutinising their track-record during the recent dotcom mania, when the price of so many new issues fell steeply within days. Some research analysts working for investment banks wrote “buy” recommendations while selling or “shorting” the same company's shares in their personal account (this came out in testimony to a congressional committee on July 31st by Laura Unger, acting chairman of the Securities & Exchange Commission). There is a growing demand for thicker “Chinese walls”—CSFB issued stricter internal guidelines in June—and for independent research teams and “buy-side” analysts (ie, those serving investors) at investment firms.

The top-tier investment banks have one talent that still commands huge fees: their brilliance at the life-or-death deal, such as a hostile takeover, a landmark privatisation or a public offering. Just as with critical surgery, the client wants the best advice there is—the cost go hang. Enormous fees, out of proportion to the work done or the miles flown, also pay for the dead periods between mandates, and for the bidding contests that the banks fail to win. The deals are driven as much by the egos of chief executives of the client companies as by their investment bankers. Fine, if it results in greater shareholder value. Too often the value is hard to see, apart from the enrichment, through share options and deal-related bonuses, of top executives.

The investment bankers who make such deals expect also to gain personally. That may still be worth it to the Wall Street firm, but the reward mechanism is time-consuming to apply, creates internal jealousies, and skews profit-sharing throughout the bank. Mr Wheat at CSFB spent months each year wrangling with investment bankers over how to allocate rewards from such deals.

No investment bank has a fool-proof formula for rewarding its dealmakers. In general, employees share the gains but not the losses both of their “profit centre” and of their bank. That encourages them to gamble the firm's capital. If things go wrong, there's always another investment bank to move on to.

Today's leaner markets give top management a stronger hand. Some instant historians are already recording a sea-change. “The entire industry has come into disrepute,” says Hans-Jörg Rudloff, the chairman of Barclays Capital, who once ran CSFB. He points to the number of technology firms hyped by investment banks in the past two years that are now defunct—a “form of organised theft”. After a huge clean-up, he predicts, “the financial markets will no longer be centre-stage”. Heaven forbid.

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The “new” Nomura Securities

Old habits die hard

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A giant brokerage promises to treat its retail clients better

IT CLEANED up the mess after scandals had sent clients fleeing, and made its way back into profit after huge losses in America and Russia. It survived deregulation in its home markets, creating a stronger company by broadening its sources of profit, and it beat back new competition from online brokers. By March 2000, when Nomura Securities, Japan's biggest stockbrokerage, reported its best profits in a decade, the horrible years of the late 1990s seemed a mere memory.

Still, the “new” Nomura has only just begun to be tested. Like other domestic brokers, its performance until recently was helped by a sharp increase in new public offerings, bringing in fat commissions and fees. The unwinding of cross-shareholdings between banks and their chums in the corporate sector also brought a stream of business. All this is now changing. The economy is sliding back into recession, while shares are falling again. The downturn shows in Nomura's latest results, announced last week. Pre-tax profits for the three months to June fell by 70% compared with a year earlier, to ¥19 billion ($155 m).

Reuters

Begging them for a second chance

Profits could shrink further. Futoshi Sasaki, investment-banking analyst at Merrill Lynch in Tokyo, predicts that the pace at which cross-shareholdings are unwound will slow if stockmarkets remain weak. Initial public offerings, notably of high-tech firms, have all but dried up.

Worse, individual investors, who piled into equities and investment trusts last year, have now turned their backs. The government thinks of luring them back, by introducing tax breaks on equity investments some time later this year. But it is unclear how effective these will be, with corporate profits tumbling. Nor have stockbrokers helped their own cause. Many have failed to convince retail investors that the industry is no longer out to force dud products on them, or to earn extra commissions by “churning” portfolios.

Nomura's recent record with its retail customers is mixed. It seems to have stuck to its promise to stop churning; its “churn rate” has dropped sharply and is now well below the industry average. The firm has worked hard to “educate” consumers about the risks and rewards of investing in equities, by holding free seminars across the country. It has even marched into schools to teach children about shares, using stockmarket simulation games and offering prizes for the best reports on how to build a portfolio.

Still, Nomura has not quite managed to shake off old habits. Last year it was criticised for the speed with

which it raised funds for a record ¥1 trillion investment fund, pouring vast sums of money into the stockmarket in a short space of time. The outcome was a dangerously heated market. Kazutoshi Inano, head of the retail business at Nomura, admits that the company should have staggered the process of gathering money for the fund—which happens to trade at about 40% below its issue price. Nomura was also one of the many domestic and foreign brokers that made a bundle from selling so-called exchangeable bonds (EBs), a product whose high rates of interest are matched by an equally high risk of losing money. Many retail customers were burnt by EBs, but Mr Inano defends Nomura's decision to market them. He said it sold EBs only to customers who understood the risks.

Nomura's occasional testiness about its credibility with retail investors reflects a drive to strengthen this side of its business. Elsewhere, its domestic investment-banking operations face competition from the big Wall Street firms, such as Goldman Sachs and Merrill Lynch, that have better mergers and acquisitions skills.

As for Nomura's international businesses, with the exception of its European operations based in London, these remain small and unprofitable. Still, it has no plans to link up with a big foreign partner, in contrast to Japan's third biggest brokerage, Nikko Securities, which in 1999 tied up with Citigroup. Instead, the firm is looking at looser alliances with smaller partners, says Hiromi Yamaji, head of global investment banking, with stronger partnerships perhaps to follow. But, he adds, now that America's economy is slowing, Nomura needs to tread carefully before making a push abroad.

Given that Nomura faces weak stockmarkets at home and that it is only starting to build up its businesses in Asia and America, where will it find profits? One new source, suggests Mr Yamaji, will be underwriting the privatisations of nationalised corporations expected under new plans for public-sector reform. The trick will be persuading those clients who once fled that these share issues are something to come back for.

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China's stockmarket reforms

Second board, second thoughts

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Shelving plans for a high-tech board

CHINA'S leaders are getting cold feet about setting up a second-board stockmarket, where listing requirements are looser, to help start-up technology firms on the mainland raise funding. Despite long preparations to establish such a market in the southern, free-wheeling city of Shenzhen, the launch, originally expected late last year, has once again been delayed.

The main reason for the dithering is the abysmal performance of second boards elsewhere, after the bursting of the high-tech bubble. Advocates of a second board in China say a coolness everywhere for technology stocks makes this precisely the right time for a launch. Better, they argue, that China's less-than-discerning investors be aware of the risks, rather than turn the new market into a casino like the main market for "A" shares (see chart).

Yet senior officials fear that, given the problems of regulating the main boards (in Shanghai and Shenzhen), setting up a new one for enterprises with little track record would be asking for trouble. The Nasdaq's plunge this past year would not necessarily make Chinese investors stop to think. China's markets tend to buck global trends. The mainland's markets are closed to foreign portfolio investors, except for a handful of shoddy companies with hard-currency "B" shares. And, since Chinese investors have precious few other outlets for investment, they pile into shares. The country has 60m-odd investors, along with countless "grey" investment funds.

China's leaders also worry that launching a second board now could divert funds from the main market at a time when the government is trying to sell stakes in listed state-owned enterprises—all part of the government's efforts to raise funds for a system of social security. Without such a system in place, tough economic reforms will meet public resistance.

Many countries developed their high-tech industries long before they had a second board. China's technology sector, on the other hand, has few options. State-owned banks are reluctant to lend to the kind of small, new firms that most need the funding. Venture capital is in its infancy in China. Small firms without links to well-established enterprises stand little chance of attracting outside investment.

So demands for a second board are considerable. Within government, the Ministry of Information Industry and the Ministry of Science and Technology argue most vociferously for an early launch. Yet Fred Hu, of Goldman Sachs in Hong Kong, says that Zhu Rongji, the prime minister, now wants to focus first on cleaning up the main market. Mr Hu believes that, when China's leaders meet for their annual huddle at the beach resort of Beidaihe this summer, Mr Zhu will argue for more delay.

Some of the bigger and better of the more than 200 firms waiting for listing on the second board have given up, turning their attention instead to China's main market. Hong Kong's second board, established in late 1999, could also be a beneficiary, though it fell far and fast when the bubble popped. China's technology sector is unlikely to suffer lasting damage, even if plans for a second board are put off even for two or three years. To get credit, or to list on other boards, technology firms will need to improve management and adopt stricter accounting methods. That kind of discipline might be a better start in life than a windfall from issuing shares.

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Soft commissions in Britain

How to pay brokers

Aug 2nd 2001
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The City and the government argue over stockbroking commissions

“PENSION funds should not without good reason permit soft commissions to be paid in respect of their transactions.” This, from Britain's Treasury, appears to mean what you want it to, according to where you stand in the lively controversy about broking commissions. Paul Myners, author of a Treasury-commissioned review earlier this year that called for an end to soft commissions, says it is an early marker for a ban. Lindsay Tomlinson, head of Britain's Fund Managers' Association (FMA), says it means that the government is exploring options other than an end to soft commissions.

At present, fees for brokers' services are passed on by fund managers to clients—pension funds, for instance. These are either straight payments for the executions of a share order, or they are “soft” commissions, that is, share orders directed to a particular broker in return for things like research, trading screens and other favours.

The FMA is lobbying hard against Mr Myners's recommendations. In September it will put out a report it commissioned from two academics at the London Business School, which will presumably defend soft commissions.

Not all fund managers and brokers in the City of London support the FMA's stand. Some large fund-management companies, for instance, Merrill Lynch Investment Managers and Phillips & Drew, part of UBS, do not pay soft commissions at all—on principle, they say. Managers with softing arrangements may not hunt for the broker offering the best price, thus harming their client's interests.

Still, few fund managers and brokers endorse another proposal in the Myners report, namely, to roll broking commissions and fund-management fees into one, presenting clients with a single, flat fee. That, they argue, would render relations between fund managers and brokers more opaque, not less. Fund managers might shy from a trade, even if it was beneficial for a client, in order to avoid overstepping their broking allowance. They might simply deal on a “net” basis—that is, not pay any broking commission at all—with the result that brokerages might recoup their costs by widening dealing spreads. Wider spreads mean less liquidity, and a dearer market to trade in.

A definitive response by the Treasury to Mr Myners's recommendations is expected at the end of September. At that same time, too, Mr Myners will be putting out a list of questions that pension-fund trustees can ask fund managers in order to make sure funds are receiving a fair deal over broking commissions.

Only the Financial Services Authority (FSA), the investment industry's regulator, has the powers to prohibit soft commissions and, for now, it is undecided. It already has tougher rules about soft commissions than in America, where soft commissions can even include cash payments. Still, it is concerned about the unintended consequences of a ban.

All the same, the Treasury is determined to put pressure on the City. It says it is toying with the idea of calling in the Office of Fair Trading and the Competition Commission if broking commissions have not become more transparent and competitive by March 2003, two years after the publication of the Myners report.

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A spat in Spanish banking

Keeping it in the familia

Aug 2nd 2001
From The Economist print edition

The heads of Spain's biggest bank, BSCH, are at each other's throats

ONE of the thorniest decisions that Banco Santander and Banco Central Hispano (BCH) had to make about their merger in 1999 was what the name of the new bank should be. Emilio Botin, the head of Banco Santander, wanted “Banco Santander Central Hispano”. No way, said Angel Corcostegui, of BCH, because people would leave off the “Central Hispano”, calling it simply Banco Santander. He insisted on a compromise: “BSCH”. Still, Mr Botin had the last word. “We'll see what it's called in five years' time,” he muttered on his way out of the meeting.

In fact it has taken Mr Botin, whose father ran Banco Santander before him, little more than two years to assert his sole command of BSCH. Jose Maria Amusategui, ex-BCH and now joint chairman, has been fighting desperately over the past few months to keep up the appearance that his bank had entered into a merger of equals and had not, in fact, been taken over. When Mr Botin unilaterally fired the bank's BCH-friendly head of communications last week, Mr Amusategui complained to the Spanish central bank. To everyone's amazement, he also considered legal action against Mr Botin. Now his own position looks precarious. According to people at the bank, he will be forced to take early retirement.

Most at BSCH hope that the rivalry at the top will end there, but that is unlikely. Mr Botin's victory over Mr Amusategui leaves Mr Corcostegui, the bank's chief executive, in a tricky position. Mr Amusategui is currently his protector from a board dominated by Banco Santander folk. One in particular, Ana Patricia Botin, daughter of Mr Botin, probably wants his job. Mr Botin was forced by BCH people to make her leave her executive role at the bank after a newspaper she talked to described her as his natural successor. No one expects her to stay away forever.

For the moment, investors are more amused than worried by the management fight at BSCH. Although it has delayed some of the cost savings expected from the merger of the two banks, there is no sign so far of any serious impact on profits or strategy. Some, however, point out how attractive the less patriarchal management structure of BSCH's rival, Banco Bilbao Vizcaya Argentaria, looks in contrast. There is no family dynasty involved there, says an analyst in Madrid. “It's all far less emotional.”

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Britain's obscure with-profits funds

Deeply flawed

Aug 2nd 2001
From The Economist print edition

The with-profits funds of Equitable Life and others are under scrutiny

A TIMELY report on that strange British species, with-profits investment funds, offers two options for consideration: allow only improved versions to be sold which explain the inherent flaws of with-profits funds, such as their lack of transparency; or forbid the funds to write any new business at all.

Just explain that once more

With-profits funds allow the policyholder to share in the profits, or losses, not just of the fund itself, but of other businesses of the fund-management company too. In 1999 alone, around 5m people invested in these funds, which total over £300 billion ($430 billion), often in conjunction with a life-insurance policy. Equitable Life, the British life company whose troubles first brought with-profits funds under the spotlight in 1999, has already taken the second option and closed its fund to new business. On July 16th it also said that it would shave 16% off its with-profits policies, partly because of the lack of new premiums coming in, to the further bafflement of angry policyholders.

The report, “Should with-profits be closed down?”, commissioned by Greig Middleton Financial Services, part of the Old Mutual insurance group, attempts to demystify these funds' practices. For years they have been made deliberately opaque: funds' “smoothing” operation—putting aside money in good years for boosting returns in years when markets turn down sharply—relies on keeping policyholders guessing about profit, or loss, allocations. The report identifies three irredeemable flaws. First is the need to keep secret the calculations that smooth out returns from one year to the next. Second is the need to penalise early redemptions of policies. And third is the need to keep liquid investments available for guaranteed payouts and for smoothing returns.

With-profits policies have, many investors would claim, served them well—despite having underperformed the broad stockmarket. In theory, they have done so because they are less risky. But investors have not been made fully aware of the risks of early redemption (which invokes unpredictable penalties), or of their exposure to the insurance firm itself. They were not told properly about “orphaned” assets, put aside for a rainy day and often unfairly re-allocated. Nor did they know that many of the allocation decisions are in the hands of an “independent actuary”. Acting in whose interest? It is not at all clear.

The FSA is conducting a review of with-profits schemes, looking at transparency, governance and disclosure to policyholders. In prosperous times, it seems, nobody cared about these things. Since the Equitable Life debacle, and another controversy last year over how Axa, an insurance company, allocated “orphaned” assets, public scrutiny is intense.

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The vintage-computer market

Old and gold

Aug 2nd 2001 | BOSTON
From The Economist print edition

It may look like junk, but there's money in that box

AP

IT IS hard to love something made of grey plastic. Especially hard when it has a habit of crashing, deleting your work and spreading viruses. But, to some, computers are worthy of reverence, and the older the computer, the more valuable it is.

Last weekend saw the first Vintage Computer Festival East, which was held just outside Boston. Like its big sister in Silicon Valley, the festival is a celebration of computer history. People come to swap stories and missing parts, as well as to show off their prized computers (in one case decorated with crushed soda cans and packets of Twinkies for that authentic 1970s look).

A basic part of the festival, trading in vintage computers, is still pretty small-scale, but may not stay that way. Once just a fad for hobbyists, old computers are now being bought as status symbols—and even as investments—at computer festivals and ham-radio fairs, not to mention on auction websites.

Sellam Ismail, organiser of both the east and west coast events, reckons that there is a growing band of 500-1,000 serious collectors of this kit. There has for some time been a healthy trade in mechanical calculators, the computer's forebears. Curta calculating machines, popular in the 1950s and 1960s, fetch a few hundred dollars. Older machines bring in a lot more. A rare Thomas De Colmar arithometer went for $250,000.

Digital computers are different, for a number of reasons. You have to be an engineer to appreciate the technical workmanship of a CRAY-1 supercomputer. And few early computers could be described as aesthetically pleasing. But Christine Finn, an archaeologist who is writing a book on Silicon Valley, says that their “meaning” is what matters.

This may explain why the Apple 1, Steve Wozniak's first stab at a personal computer (and less powerful than most digital watches), has fetched $25,000 at auction. Other early models, such as the MITS Altair 8800, the Processor Technology SOL-20, the IMSAI 8080 series and the Scelbi 8H can all bring over $1,000.

Many such gadgets sit neglected in attics and rubbish dumps. Collectors sometimes rescue a decrepit computer, only to blow it up accidentally when they apply a current across its weary circuits. But the trade has recently been spurred by university courses teaching computer history and by museums, notably the Computer Museum History Centre, which is due to open its new home at Moffett Field, California, in 2005. Mr Ismail insists that the business will grow. He has a passion, but note the gleam in his eye. He owns no fewer than 1,500 computers, 3,000 books about computers, and some 20,000 computer magazines.

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Economics focus

Defining a downturn

Aug 2nd 2001
From The Economist print edition

Fears grow about a "global recession". What exactly does that mean?

THE list of sickly economies is growing. In the year to the second quarter, America's GDP growth slumped to its slowest rate for almost ten years. Japan's GDP probably fell for a second consecutive quarter; its industrial production plunged at an annual rate of 17% in the first six months of this year. German business confidence has fallen to its lowest for five years. And several emerging economies, including Mexico and Singapore, are already in outright recession.

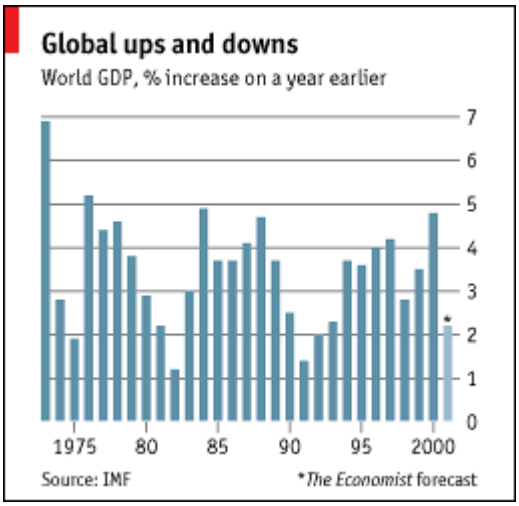
Although America is having a hard landing, it has so far escaped an official recession, defined as two consecutive quarters of falling GDP. But is it possible for the world economy as a whole to suffer a recession without America actually going under? The answer depends on what you mean by "recession".

Global industrial production fell at an annual rate of 6% in the first half of this year, the sharpest dive in two decades. But global GDP growth has remained positive, and most economists still forecast global growth of at least 2% this year. So why the talk about a world recession?

In an individual economy a recession involves a fall in GDP. The world, by that definition, has not suffered a true recession since the 1930s: a slump in the United States, say, has always been offset by growth elsewhere. The years 1975, 1982 and 1991 were all deemed to be world recessions, yet, according to figures published in the IMF's *World Economic Outlook*, global GDP grew in those years by 1.9%, 1.2% and 1.4% respectively.

Cynics might say that in all three years America was in recession and that Americans think they are the world. Nevertheless, there is a good reason to define these years as global recessions—a reason that exposes the flaws in the traditional definition of recession in a single economy. Suppose an economy has a long-term sustainable growth rate of 1.5% (for example, Japan today) and GDP then falls by 0.5% this year. That would automatically be labelled a recession. If, on the other hand, the long-term sustainable growth rate was 3.5% (as in America today, many economists say) and growth slows to 1.5%, then the country officially avoids recession. Yet the fall in GDP growth relative to trend is identical in both cases. Likewise, the consequent rise in unemployment will be broadly the same.

A more sensible definition of recession might therefore be when the growth rate falls significantly (perhaps by at least two percentage points) below its long-term potential, causing unemployment to rise. In practice, potential growth rates are devilishly hard to estimate—not least in America in recent years. A best guess is that the world's potential growth rate is 3.5-4%, so a slowdown to less than 2% growth ought to count as a recession.



It is not only the definition of a world recession that is controversial. The actual figures for global GDP growth should also carry a health warning. For instance, one investment bank, Morgan Stanley, predicts global growth of 2.4% for this year, down from 4.8% in 2000. J.P. Morgan, on the other hand, is gloomier, with growth forecast at just 1.6%. However, closer inspection reveals that the difference between the two forecasts is due largely to different methods used to add together individual countries' growth rates.

Morgan Stanley, like the IMF, uses weights based on countries'GDP measured at purchasing-power parity (PPP), which adjusts for differences in price levels between countries. J.P. Morgan uses weights based on GDP at market exchange rates. The PPP method gives far more weight to emerging economies, especially to China, and since these economies are growing faster than rich ones, the PPP-based figure for global growth comes out higher. Whichever measure you take, though, the world economy is dangerously close to recession.

The dark side of the boom

At the start of this year, only the American economy gave real cause for concern. How has the blight spread so quickly? One reason is that stockmarkets everywhere have collapsed, hurting business and consumer confidence. Another is that America has exported some of its slump in business investment to other countries. According to Salomon Smith Barney, over 40% of American investment equipment is imported, compared with 25% in 1992. American imports now amount to 6% of the rest of the world's GDP, double their share in 1990.

That might still sound modest, but the annual rate of growth in American imports has slowed from almost 20% in the second quarter of last year to minus 10% this year. That has taken a big slice out of global growth. American imports of information-technology equipment fell at an annual rate of almost 50% in the three months to May, compared with growth of over 20% late last year. This has hurt Asian producers especially. Singapore's industrial production has sunk by 16% over the past year.

Germany's greater dependence on exports of capital goods partly explains why it has been hit harder than other euro-area economies. However, the crude figures on trade caused many economists to understate the impact on European firms of America's slowdown. The sales of American-based affiliates of European multinationals are almost four times as big as American imports from Europe.

By sharing its economic pain with the rest of the world, America has been able to cushion the impact on jobs and consumer spending at home. However, exporting more of its slump than in the past also carries a risk. Those countries pushed into recession by weaker American demand will, in turn, buy less from both the United States and the rest of the world, magnifying the initial effect.

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By invitation

The truth about the environment

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From The Economist print edition

Panos

Environmentalists tend to believe that, ecologically speaking, things are getting worse and worse. Bjorn Lomborg, once deep green himself, argues that they are wrong in almost every particular

ECOLOGY and economics should push in the same direction. After all, the “eco” part of each word derives from the Greek word for “home”, and the protagonists of both claim to have humanity's welfare as their goal. Yet environmentalists and economists are often at loggerheads. For economists, the world seems to be getting better. For many environmentalists, it seems to be getting worse.

These environmentalists, led by such veterans as Paul Ehrlich of Stanford University, and Lester Brown of the Worldwatch Institute, have developed a sort of “litany” of four big environmental fears:

• Natural resources are running out.

• The population is ever growing, leaving less and less to eat.

• Species are becoming extinct in vast numbers: forests are disappearing and fish stocks are collapsing.

• The planet's air and water are becoming ever more polluted.

Human activity is thus defiling the earth, and humanity may end up killing itself in the process.

The “litany” of environmental fears is not backed up by evidence

The trouble is, the evidence does not back up this litany. First, energy and other natural resources have become more abundant, not less so since the Club of Rome published “The Limits to Growth” in 1972. Second, more food is now produced per head of the world's population than at any time in history. Fewer people are starving. Third, although species are indeed becoming extinct, only about 0.7% of them are expected to disappear in the next 50 years, not 25-50%, as has so often been predicted. And finally, most forms of environmental pollution either appear to have been exaggerated, or are transient—associated with the early phases of industrialisation and therefore best cured not by restricting economic growth, but by accelerating it. One form of pollution—the release of greenhouse gases that causes global warming—does appear to be a long-term phenomenon, but its total impact is unlikely to pose a devastating problem for the future of humanity. A bigger problem may well turn out to be an inappropriate response to it.

Can things only get better?

Take these four points one by one. First, **the exhaustion of natural resources**. The early

environmental movement worried that the mineral resources on which modern industry depends would run out. Clearly, there must be some limit to the amount of fossil fuels and metal ores that can be extracted from the earth: the planet, after all, has a finite mass. But that limit is far greater than many environmentalists would have people believe.

Reserves of natural resources have to be located, a process that costs money. That, not natural scarcity, is the main limit on their availability. However, known reserves of all fossil fuels, and of most commercially important metals, are now larger than they were when “The Limits to Growth” was published. In the case of oil, for example, reserves that could be extracted at reasonably competitive prices would keep the world economy running for about 150 years at present consumption rates. Add to that the fact that the price of solar energy has fallen by half in every decade for the past 30 years, and appears likely to continue to do so into the future, and energy shortages do not look like a serious threat either to the economy or to the environment.

The development for non-fuel resources has been similar. Cement, aluminium, iron, copper, gold, nitrogen and zinc account for more than 75% of global expenditure on raw materials. Despite an increase in consumption of these materials of between two- and ten-fold over the past 50 years, the number of years of available reserves has actually grown. Moreover, the increasing abundance is reflected in an ever-decreasing price: *The Economist*'s index of prices of industrial raw materials has dropped some 80% in inflation-adjusted terms since 1845.

Next, **the population explosion** is also turning out to be a bugaboo. In 1968, Dr Ehrlich predicted in his best selling book, “The Population Bomb”, that “the battle to feed humanity is over. In the course of the 1970s the world will experience starvation of tragic proportions—hundreds of millions of people will starve to death.”

That did not happen. Instead, according to the United Nations, agricultural production in the developing world has increased by 52% per person since 1961. The daily food intake in poor countries has increased from 1,932 calories, barely enough for survival, in 1961 to 2,650 calories in 1998, and is expected to rise to 3,020 by 2030. Likewise, the proportion of people in developing countries who are starving has dropped from 45% in 1949 to 18% today, and is expected to decline even further to 12% in 2010 and just 6% in 2030. Food, in other words, is becoming not scarcer but ever more abundant. This is reflected in its price. Since 1800 food prices have decreased by more than 90%, and in 2000, according to the World Bank, prices were lower than ever before.

Modern Malthus

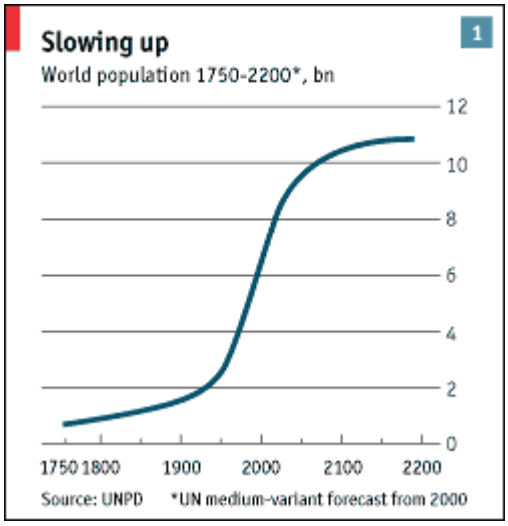
Malthus was wrong: population growth has not been exponential

Dr Ehrlich's prediction echoed that made 170 years earlier by Thomas Malthus. Malthus claimed that, if unchecked, human population would expand exponentially, while food production could increase only linearly, by bringing new land into cultivation. He was wrong. Population growth has turned out to have an internal check: as people grow richer and healthier, they have smaller families. Indeed, the growth rate of the human population reached its peak, of more than 2% a year, in the early 1960s. The rate of increase has been declining ever since. It is now 1.26%, and is expected to fall to 0.46% in 2050. The United Nations estimates that most of the world's population growth will be over by 2100, with the population stabilising at just below 11 billion (see chart 1).

Malthus also failed to take account of developments in agricultural technology. These have squeezed more and more food out of each hectare of land. It is this application of human ingenuity that has boosted food production, not merely in line with, but ahead of, population growth. It has also, incidentally, reduced the need to take new land into cultivation, thus reducing the pressure on biodiversity.

Third, that **threat of biodiversity loss** is real, but exaggerated. Most early estimates used simple island models that linked a loss in habitat with a loss of biodiversity. A rule-of-thumb indicated that loss of 90% of forest meant a 50% loss of species. As rainforests seemed to be cut at alarming rates, estimates of annual species loss of 20,000-100,000 abounded. Many people

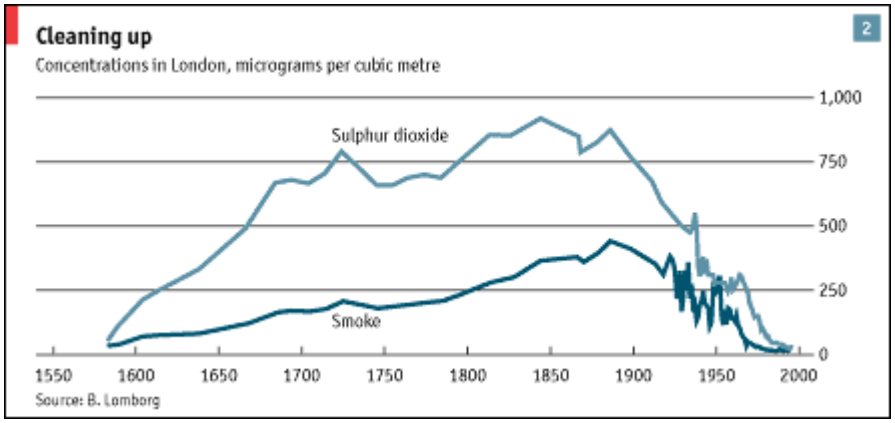
expected the number of species to fall by half globally within a generation or two.



However, the data simply does not bear out these predictions. In the eastern United States, forests were reduced over two centuries to fragments totalling just 1-2% of their original area, yet this resulted in the extinction of only one forest bird. In Puerto Rico, the primary forest area has been reduced over the past 400 years by 99%, yet “only” seven of 60 species of bird has become extinct. All but 12% of the Brazilian Atlantic rainforest was cleared in the 19th century, leaving only scattered fragments. According to the rule-of-thumb, half of all its species should have become extinct. Yet, when the World Conservation Union and the Brazilian Society of Zoology analysed all 291 known Atlantic forest animals, none could be declared extinct. Species, therefore, seem more resilient than expected. And tropical forests are not lost at annual rates of 2-4%, as many environmentalists have claimed: the latest UN figures indicate a loss of less than 0.5%.

Fourth, **pollution** is also exaggerated. Many analyses show that air pollution diminishes when a society becomes rich enough to be able to afford to be concerned about the environment. For London, the city for which the best data are available, air pollution peaked around 1890 (see chart 2). Today, the air is cleaner than it has been since 1585. There is good reason to believe that this general picture holds true for all developed countries. And, although air pollution is increasing in many developing countries, they are merely replicating the development of the industrialised countries. When they grow sufficiently rich they, too, will start to reduce their air pollution.

In London, air pollution peaked around 1890



All this contradicts the litany. Yet opinion polls suggest that many people, in the rich world, at least, nurture the belief that environmental standards are declining. Four factors cause this disjunction between perception and reality.

Always look on the dark side of life

One is the lopsidedness built into scientific research. Scientific funding goes mainly to areas with many problems. That may be wise policy, but it will also create an impression that many more potential problems exist than is the case.

Secondly, environmental groups need to be noticed by the mass media. They also need to keep the money rolling in. Understandably, perhaps, they sometimes exaggerate. In 1997, for example, the Worldwide Fund for Nature issued a press release entitled, “Two-thirds of the world's forests lost forever”. The truth turns out to be nearer 20%.

Environmental groups are much like other lobby

Though these groups are run overwhelmingly by selfless folk, they nevertheless share many of the characteristics of other lobby groups. That would matter less if people applied the same degree of scepticism to environmental lobbying as they do to lobby groups in other fields. A trade organisation arguing for, say,

weaker pollution controls is instantly seen as self-interested. Yet a green organisation opposing such a weakening is seen as altruistic, even if a dispassionate view of the controls in question might suggest they are doing more harm than good.

groups, but are treated less sceptically

A third source of confusion is the attitude of the media. People are clearly more curious about bad news than good. Newspapers and broadcasters are there to provide what the public wants. That, however, can lead to significant distortions of perception. An example was America's encounter with El Niño in 1997 and 1998. This climatic phenomenon was accused of wrecking tourism, causing allergies, melting the ski-slopes and causing 22 deaths by dumping snow in Ohio.

A more balanced view comes from a recent article in the *Bulletin of the American Meteorological Society*. This tries to count up both the problems and the benefits of the 1997-98 Niño. The damage it did was estimated at $4 billion. However, the benefits amounted to some $19 billion. These came from higher winter temperatures (which saved an estimated 850 lives, reduced heating costs and diminished spring floods caused by meltwaters), and from the well-documented connection between past Niños and fewer Atlantic hurricanes. In 1998, America experienced no big Atlantic hurricanes and thus avoided huge losses. These benefits were not reported as widely as the losses.

The fourth factor is poor individual perception. People worry that the endless rise in the amount of stuff everyone throws away will cause the world to run out of places to dispose of waste. Yet, even if America's trash output continues to rise as it has done in the past, and even if the American population doubles by 2100, all the rubbish America produces through the entire 21st century will still take up only the area of a square, each of whose sides measures 28km (18 miles). That is just one-12,000th of the area of the entire United States.

The price of a life

Cost of saving one year of one person's life
1993$

Passing laws to make seat-belt use mandatory	69
Sickle-cell anaemia screening for black new-borns	240
Mammography for women aged 50	810
Pneumonia vaccination for people aged over 65	2,000
Giving advice on stopping smoking to people who smoke more than one packet a day	9,800
Putting men aged 30 on a low-cholesterol diet	19,000
Regular leisure-time physical activity, such as jogging for men aged 35	38,000
Making pedestrians and cyclists more visible	73,000
Installing air-bags (rather than manual lap belts) in cars	120,000
Installing arsenic emission-control at glass-manufacturing plants	51,000,000
Setting radiation emission standards for nuclear-power plants	180,000,000
Installing benzene emission control at rubber-tyre manufacturing plants	20,000,000,000

Source: T. Tengs et al, *Risk Analysis*, June 1995

Ignorance matters only when it leads to faulty judgments. But fear of largely imaginary environmental problems can divert political energy from dealing with real ones. The table above, showing the cost in the United States of various measures to save a year of a person's life, illustrates the danger. Some environmental policies, such as reducing lead in petrol and sulphur-dioxide emissions from fuel oil, are very cost-effective. But many of these are already in place. Most environmental measures are less cost-effective than interventions aimed at improving safety (such as installing air-bags in cars) and those involving medical screening and vaccination. Some are absurdly expensive.

Yet a false perception of risk may be about to lead to errors more expensive even than controlling the emission of benzene at tyre plants. Carbon-dioxide emissions are causing the planet to warm. The best estimates are that the temperature will rise by some 2°-3°C in this century, causing considerable problems, almost exclusively in the developing world, at a total cost of $5,000 billion. Getting rid of global warming would thus seem to be a good idea. The question is whether the cure will actually be more costly than the ailment.

Radically cutting carbon-dioxide emissions will be far more expensive than adapting to higher temperatures

Despite the intuition that something drastic needs to be done about such a costly problem, economic analyses clearly show that it will be far more

expensive to cut carbon-dioxide emissions radically than to pay the costs of adaptation to the increased temperatures. The effect of the Kyoto Protocol on the climate would be minuscule, even if it were implemented in full. A model by Tom Wigley, one of the main authors of the reports of the UN Climate Change Panel, shows how an expected temperature increase of 2.1°C in 2100 would be diminished by the treaty to an increase of 1.9°C instead. Or, to put it another way, the temperature increase that the planet would have experienced in 2094 would be postponed to 2100.

So the Kyoto agreement does not prevent global warming, but merely buys the world six years. Yet, the cost of Kyoto, for the United States alone, will be higher than the cost of solving the world's single most pressing health problem: providing universal access to clean drinking water and sanitation. Such measures would avoid 2m deaths every year, and prevent half a billion people from becoming seriously ill.

The Kyoto agreement merely buys the world six years

And that is the best case. If the treaty were implemented inefficiently, the cost of Kyoto could approach $1 trillion, or more than five times the cost of worldwide water and sanitation coverage. For comparison, the total global-aid budget today is about $50 billion a year.

To replace the litany with facts is crucial if people want to make the best possible decisions for the future. Of course, rational environmental management and environmental investment are good ideas—but the costs and benefits of such investments should be compared to those of similar investments in all the other important areas of human endeavour. It may be costly to be overly optimistic—but more costly still to be too pessimistic.

Bjorn Lomborg is a statistician at the University of Aarhus, Denmark, who once held what he calls “left-wing Greenpeace views”. In 1997, he set out to challenge Julian Simon, an economist who doubted environmentalist claims—and found that the data generally supported Simon. His book, “The Skeptical Environmentalist”, will be published in English by Cambridge University Press in a month's time.

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The Federal Reserve

A fragile superpower

Aug 2nd 2001
From The Economist print edition

Hulton Getty

Alan Greenspan's influence over the capital markets is in important respects psychological. What will happen to the Fed when he leaves?

Get article background

The Fed: The Inside Story of How the World's Most Powerful Financial Institution Drives the Market
By Martin Mayer

Free Press; 368 pages; $27.50

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IT HAS been another busy year for America's Federal Reserve Board. Already, by the end of July it had cut short-term interest rates six times in a bid to stave off a full-blown recession in the world's largest economy. America's central bank may yet be steamrollered by events, but if it isn't, then its Delphic chairman, Alan Greenspan, will again have triumphed over the Fed's critics, who feared that this year would be payback time for the excesses built up during the long economic boom.

How has the Fed been able to pilot the economy so effectively during the past couple of decades, making the inept inflationary policies of the 1970s no more than a distant, nightmarish memory? The answer, suggested by Martin Mayer, a respected financial journalist, fellow of the Brookings Institution and author of more than 30 books, most of them on finance, is far from reassuring: a combination of economic common sense with large doses of luck and some short-term fixes that may yet have nasty long-term consequences. Worse, he writes in his typically readable and probing style, big changes in the global financial system mean that in future it will be much harder for the Fed to repeat its recent heroics.

The job of the Fed, according to the much repeated formula of a former chairman, is to “take away the punch bowl just as the party is getting good”. Mr Greenspan has heeded this advice quite often—notably more so than William Miller, Jimmy Carter's disastrous choice. Yet Mr Greenspan has also shown a worrying tendency to bring back the punch bowl as soon as the revellers show signs of sobering up. A series of bail-outs brokered, if not always underwritten, by the Fed have fostered a belief among some large investors that if they bet and lose big, the Fed will insulate them from the consequences. The most recent example was the rescue of Long-Term Capital Management (LTCM), a hedge fund, in 1998: according to Mr Mayer, the Fed's main concern in this case was less the direct consequences of LTCM's investment positions than fear that if the fund went under, the American public would lose confidence in its ability as a regulator.

The public's confidence has been crucial to the Fed's success under Mr Greenspan, who has won it exactly the sort of independent, centralised power feared by those who opposed the creation of the Federal

Reserve System. They managed to delay its birth until 1913, and ensured that it started as a decentralised system of regional Feds, rather than a true central bank like the Bank of England. By 1951 an accord had been reached with President Harry Truman, ensuring the Fed's board of governors had independence in setting short-term interest rates. (The distance between the Fed and the White House has varied since; in 1970, Richard Nixon appointed Arthur Burns as chairman with the words: “I respect his independence. However, I hope that independently he will conclude that my views are the ones that should be followed.”) In 1999, the Fed won a battle with the Treasury to become the leading regulator of the financial system in America and, in effect, the world.

Yet Mr Greenspan's success has largely been the result of a confidence trick, as Mr Mayer points out. Because the public and the markets had faith in him, his actions had a psychological power far greater than was merited by the actual weapons in the Fed's arsenal. Yet in the past couple of decades the process of credit creation has moved increasingly out of the banking sector, over which the Fed has considerable direct power, into the financial markets, which it has much less ability to influence, except through psychology. Mr Mayer concludes, ominously, that the health of the economy and Mr Greenspan's skill and reputation have masked the great truth that central banks often no longer really understand what they are doing. Today's Fed has a multi-faceted problem and only one tool, short-term interest rates. Under the current chairman, that one tool may suffice. But what then?

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About sponsorship

Contemporary art in America (1)

Hangings in the wild west

Aug 2nd 2001 | LAS VEGAS, NEVADA
From The Economist print edition

Two of America's hottest curators are putting Las Vegas on the cultural map

Libby Lumpkin

Culture vulture

BUGSY SIEGEL would not approve. Topless revues in Las Vegas have been replaced by dolphin petting, showgirls by the Cirque du Soleil, and now art museums are coming to town. Gambling revenues account for only half the town's intake these days and since 1998 female visitors have outnumbered men. The figure is 57% to 43%. Has sin city gone soft?

“This is not so much a renaissance as a naissance,” says Libby Lumpkin, an art historian and the founding curator of the Bellagio Hotel art collection, the first blue-chip art space to open on the Strip. Ms Lumpkin (above), like her husband, Dave Hickey (see article), is a professor at the University of Nevada Las Vegas (UNLV), where they head one of the country's hottest fine-arts programmes, drawing art students and visiting professors from all over the world. “Everybody likes an excuse to come to Vegas,” she grins.

The animator of the new Las Vegas is Steve Wynn, the owner of Mirage Resorts. The son of a gambler, it was his idea to clean up the city in the 1980s and create a summer season, attracting families by building dolphin pools and Treasure Island pirate battles into his Mirage resorts. The families came in droves but they didn't gamble, so Mr Wynn shifted his attention to attracting a new high-end clientele: the big spenders with sophisticated tastes, who had previously sniffed at Vegas's rhinestone glitter. Hence the Bellagio: Las Vegas's first luxury resort. When he heard, somewhat surprisingly, that more Americans visit art exhibitions than sports events, it became the first casino to house an art collection—Mr Wynn's own, valued at $300m.

“Steve started trying to show Pop Art, Lichtenstein and others, but it didn't stand out in the glare of Las Vegas,” says Ms Lumpkin, who catalogued his collection. “That's when he started showing Impressionist and Post-Impressionist paintings,” she adds, noting in a tribute to the city's sumptuous plasticity, that “their painterly and hand-made qualities made them totally unlike anything anyone had ever seen here before.” The Bellagio, open 24 hours a day, was a runaway success. Mr Wynn leased his personal collection to the corporation operating his hotel, thus funding his art purchases and netting around $40,000 a day in visits, which cost $12 a head. Meanwhile, the Picasso restaurant, hung with the real thing, was booked solid and a red Rauschenberg greeted visitors in the lobby.

Since Mr Wynn sold the Bellagio to the MGM Grand last year, the casino has shown a touring exhibition from the Phillips Collection in Washington, DC, and a private show of art belonging to Steve Martin, a Hollywood actor. Mr Wynn, meanwhile, bought the legendary Desert Inn casino, where he is living with his art while he plans his next move.

Across the strip at the Venetian, a rival casino billionaire, Sheldon Adelson, respects Mr Wynn's vision so much that he is trying to outdo it, by importing art from the Guggenheim and Hermitage museums. “Steve changed the world of Las Vegas and I hope to change it even more. Our job collectively is to enhance the image of Las Vegas, to get new audiences to come, and art is one of the elements.”

Mr Adelson built his huge casino complex, resort and convention centre to look like Venice, “because my wife thought Venice was the most romantic place in the world when we went on our honeymoon”. With more *trompe l'oeil* than trump cards, the Venetian comes complete with life-sized campanile, gondola rides rowed by opera singers, a Doge's Palace “only one column short of the original”, a shopping mall dressed up as the Piazza San Marco under a twilight sky, and now a Guggenheim gallery. After all, there is one in Venice too.

The Guggenheim exhibition hall and a joint Guggenheim-Hermitage gallery are set to open alongside the Venetian casino on September 16th. Designed by a winner of the Pritzker architectural prize, Rem Koolhaas, who is famed for his expansive industrial spaces, both will be open around the clock, each with an entry charge of $15. Encased in impenetrable Cor-ten steel, Mr Koolhaas's design for the Guggenheim-Hermitage looks like a jewel vault buried in the heart of the casino. It has a new system of hanging pictures by computerised magnets. The modest-sized space will showcase around 50 works from each institution's post-Impressionist and modern collections (including Picasso's “Three Women” and Matisse's “Still Life with the Dance”), rotating every six months. To add even more variables to this cross-cultural melée, the 75,000-square-foot (7,000-square-metre) Guggenheim exhibition hall will open with “The Art of the Motorcycle”, an installation designed by Frank Gehry, and already shown to popular acclaim in New York and Bilbao, albeit not from all the critics.

“The Venetian Guggenheim and Hermitage represent a quantum leap forward in the development of Las Vegas as a place that has redefined the meaning of entertainment,” says Mr Adelson. Since opening in 1999, the Venetian has brought brand-name businesses, including New York's Lutèce restaurant and Arizona's Canyon Ranch spa, under its roof. Now Mr Adelson is betting that the Guggenheim-Hermitage museums will be the jewel in the crown. His logic is simple: “If you can't bring people to your museum, bring your museum to the people. These museums have plenty of extra art—only about 5% is on show—and Las Vegas will have 40m visitors next year. People come here to escape everyday life and they want new diversions.”

Is the culture boom in Las Vegas in fact an upmarket gloss put on what remains a high-volume entertainment business or is the town offering something deeper? Mr Adelson thinks showing art makes commercial sense. “In the 1940s and 1950s, Vegas began by making an illegitimate business legitimate: gambling. Now half of our revenue comes from the other stuff: conventions [where Mr Adelson made his first fortune], tourism, shopping, entertainment. Art expands on that and makes the Venetian stand out.” Still, art is only a fraction of the action here, one that would not exist without the financial motor of the casino. As Robert Hughes, an Australian art critic with an acid tongue and who lives in New York, has remarked, “In Las Vegas, ‘Art' is more likely to be the name of your limousine driver.”

It is anyone's guess what the odds are that people will pay $30 each to see art when the pavements of the Strip offer an unending cabaret of attractions absolutely free. After all, this is a city where culture becomes a menu choice as you cruise past the monuments of Luxor and ancient Rome, while the New York skyline competes with the Eiffel Tower. Meanwhile, back at the Bellagio, the eight-acre (3.2-hectare) lake presents water-dancing shows, where fountains squirt in time to show tunes, a technique invented by a real Las Vegas boy, Liberace.

Venture down to the original Las Vegas Strip just beyond the Desert Inn, and the tawdry sublime of old Vegas bursts into view, with its wedding chapels, Elvis impersonators and tattoo parlours. This is an odd place, you might think. But locals are raising money to build a neon museum to preserve the old signs produced by the YESCO company and display them on the Strip—pulsating their impotent iconography into the desert night. In an age when mega-casinos blast their attractions on stadium-scale plasma screens, there is something comforting about the Christmas decoration glitz of these vintage signs. Maybe here the museum culture of Las Vegas will be at its most genuine.

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Contemporary art in America (2)

Hick or Hickey?

Aug 2nd 2001 | SANTA FE, NEW MEXICO
From The Economist print edition

Meet the P.J. O'Rourke of art criticism

Libby Lumpkin

In the eye of the beholder

IT IS hard to tell whether Dave Hickey, with his grizzled trucker looks and Texan drawl, is a backwoods curmudgeon or a thoughtful hipster of the contemporary-art world. He wears wind-breakers patched with brand names, he chain-smokes and he counts among his aesthetic favourites low-riding cars, Jeff Koons and Norman Rockwell. He is also charming, funny and nimble, like a boxer. Behind his regular-Joe tastes there lies a broad critical agenda. A foe of conceptual art, cultural theory and political correctness, Mr Hickey says he wants to return beauty to contemporary art.

Not everyone will drop flat at the first punch and agree that beauty ever fully departed, or that Norman Rockwell and Jeff Koons are really the best examples of what is missing from contemporary taste. But there is no denying Mr Hickey's appeal. When he talks, you soon see why his gravelly deadpan has become a siren song that holds fans, especially young fans, in thrall. His university lectures in Las Vegas and his books sell out.

With its strong lights and darks, his is an understandably popular gospel. Art, for Mr Hickey, is a vital alternative to “stagnant” mainstream culture, an invitation to pleasure and a challenge to trust your responses. It is a refuge “from shopping, from fashion, from relevance, from education”—a list which neatly lines up entertainment philistines and high-art intellectuals as a common enemy. He derides the conformism of the art scene, and chides the curators of big international art shows for their “repression” of alternative styles.

Now, at 61, Mr Hickey has had the first chance to put on a big show of his own, the SITE Santa Fe Biennial*. The town, in his view, is devoted to marketing fantasies of a pure, local culture, whereas he wanted to convey “the impurity of cultural overlap”. With the help of Graft Design from Los Angeles, he transformed a Coors beer warehouse into a “salon-style” enfilade of spaces, opening up vistas and relationships to show how a mix of artists and cultures bounce off each other.

Minimal abstract paintings by Ellsworth Kelly share space with Kenneth Price's globular, coral-coloured ceramic sculptures. The go-for-baroque glitter of Indian-inspired costumes, designed by Darryl Montana for the Mardi Gras in his native New Orleans, is on show with kinetic work by a Venezuelan artist, Jesus Rafael Soto. A glass-blower and artist, Josiah McElheney, has filled a spare reconstruction of Adolf Loos's American bar in Vienna with glass in the style of the anti-decorative architect. Across stands Takashi Murakami's creature-like helium balloon decorated with kitsch smiley faces.

Most of the 29 artists on show are American, many from the west coast. They range in age from 29 (graffiti tagger) to 82 (abstract painter). The wild card is Kermit Oliver, a reclusive Waco postman, dubbed a Texas pre-Raphaelite by Mr Hickey, who paints bizarre religious allegories.

Amid the western hues, sunny directness and learned visual puns is there a theme? Mr Hickey believes so, and it has a regional sound: “New Yorkers think we lack depth,” he says with combative pride. “That's good. It keeps us on the edge.”

* Fourth SITE Santa Fe Biennial. “Beau Monde: Towards a Redeemed Cosmopolitanism” (to January 6th)

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King Hassan of Morocco

Luck of the devil

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WE SHOULD not speak ill of the dead. But those who eulogised Morocco's King Hassan II within hours of his death two years ago were surely either simpletons or hypocrites. How could Pope John Paul II, for example, possibly believe that Hassan had guided his country along “the path of spiritual and material progress”? As Ignace Dalle points out in this scathing account of the king's rule, the reality was that Hassan, with “his dark view of man and his limitless cynicism”, was like a medieval tyrant. What mattered was to preserve the monarchy at all costs.

Le RÃ¨gne de Hassan II, 1961-1999: Une EspÃ©rance BrisÃ©e
By Ignace Dalle

Editions Maisonneuve & Larose; 309 pages; FFr130

Buy it at Amazon.fr

Two-thirds of Morocco's population lives in the countryside. By Mr Dalle's reckoning, more than 60% of them still live without clean drinking water; more than 90% have no access to health care; almost 90% have no electricity; and the illiteracy rate is getting on for 70%. Nor are the cities, with their appalling unemployment levels and spreading slums, much better.

So how did Hassan manage to rule for so long? Moroccans often talk of his *baraka*, the blessing or good luck that comes from God. Indeed so: witness the king's extraordinary escapes from the coup attempts of 1971 and 1972. But perhaps Hassan made his own luck. Mr Dalle, who was the Agence France-Presse correspondent in Rabat for much of the 1990s, notes the king's extreme ruthlessness (sending junior coup plotters, for example, to rot for years in the desert dungeon of Tazmamart) and the divide-and-rule tactics with which he enfeebled the country's political class while ensuring its dependence on the monarch.

He notes the brilliant gamble in sending hundreds of thousands of his chauvinistic subjects on the “Green March” in 1975 to claim sovereignty over the former Spanish Sahara. At a stroke, Hassan added popularity to the respect that came with a royal lineage stretching back to the Prophet Muhammad—each Moroccan king carries the title “commander of the faithful”. In other words, Hassan's recipe for survival was in part to be cruel, cynical, manipulative and revered. The other part was the power of patronage: the ability to make every elite—political, business, social or military—dependent on the royal court. The result is a country corrupted at every level, especially its judiciary, and a society where only the richest families can circumvent the disastrous public health and education systems.

All this Mr Dalle spells out in impressive detail, with a journalist's ear for the telling interview. Yet while the detail reveals the problems of ordinary Moroccans, somehow Hassan himself remains obscured. We learn much about the kingdom, but little about the king himself.

Another criticism is that Mr Dalle assumes a knowledge of Arabic terms that most readers will not have. A third is that Mr Dalle does not explore what King Hassan could have done differently or better—an important point given the poor performance of not just Morocco but most third-world countries.

But no matter. What counts is that this book strips away the indulgent illusions held by too many of Morocco's friends. Moreover, it serves as a warning to Hassan's successor, Muhammad VI. As Mr Dalle correctly argues, Hassan has left his son a dangerous legacy: “In eliminating all credible opposition, the regime has opened the way for the Islamists.” Although King Muhammad cannot be expected to solve his country's problems overnight, Mr Dalle points to the danger that, if he does nothing, “the Moroccan people will start to think that Hassan II was not, in the end, so bad.”

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Natural history

Getting stuffed

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BOOKS IN BRIEF

How man has learned, through history, about his habitat

MICHAEL POLLAN pretends, for the sake of his argument, that plants actively choose strategies to ensure their prosperity and survival, deliberately acquiring qualities that make them attractive to humans and useful insects—just as we manipulate them to serve our own needs and desires.

He focuses on four plants and their distinctive qualities: the apple for sweetness, the tulip for beauty, marijuana for intoxication and the potato for subsistence. Unhappily, the combination of superstition and anthropomorphism skews an otherwise skilful and engaging piece of reporting that raises intriguing questions about man and nature. But it takes us no closer to the answers.

The Botany of Desire: A Plant's-Eye View of the World
By Michael Pollan

Random House; 216 pages; $24.95

Buy it at
Amazon.com
Amazon.co.uk

The death of his 10-year-old daughter, Annie, probably of tuberculosis, wounded Charles Darwin deeply. She died in Malvern, where he had taken her for a water cure. Separated from his wife, who was too heavily pregnant to go with him, Darwin had nursed Annie devotedly. The misfortune marked him for life and fed into his scientific thinking.

This account, by a descendant of Darwin's, does not pretend to offer the vast scope and intellectual sophistication of the 1991 biography by Adrian Desmond and James Moore. But as a family memoir it has real warmth. The Darwin who emerges is most remarkable for the way in which he combines the attributes of world-class thinker and paterfamilias.

Annie's Box: Charles Darwin, his Daughter and Human Evolution
By Randal Keynes

Fourth Estate; 352 pages; £16.99.

Buy it at
Amazon.co.uk

EUGENE DUBOIS made vast judgments based on limited data. While digging in Java in 1891, he decided that he had found the “missing link”. All he had discovered was a piece of ape-like skull, a tooth and, some way away, a bit of humanoid femur, which he believed came from the same individual. Only later did his measurements show that the skull-cap was from a new transitional species, *pithecanthropus erectus*, the upright ape-like man.

In this richly-detailed and pacy biography, Pat Shipman shows how for more than 20 years Dubois allowed no one to examine his precious skull, for fear that they might steal his ideas. What is missing is a sense of the subject's place in history. Only in a brief postscript do we learn that *pithecanthropus* now goes by the more familiar name *homo erectus*. *Homo habilis*, the first human species, is never mentioned.

The Man Who Found the Missing Link: EugÃ¨ne Dubois and His Lifelong Quest to Prove Darwin Right
By Pat Shipman

Simon and Schuster; 586 pages; $28.
Weidenfeld & Nicolson; £25

Buy it at
Amazon.com
Amazon.co.uk

THE earliest natural history museums were “cabinets-of-curiosities”, put together in the 17th century. Deformities and grisly experiments were especially popular; the exhibits at the Hunterian Museum in the Royal College of Surgeons in London include the testicle of a cockerel attached to a hen's intestine.

Stuffed Animals and Pickled Heads
By Stephen T. Asma

The cabinets changed when Darwin's theory of evolution became widely accepted in the late 19th century, with less emphasis on the exceptional, more on showing how each species fitted into the supposed scheme of things. In a thoughtful study, Stephen Asma examines how natural-history museums fulfil the sometimes conflicting functions of education and entertainment, and how far their scientific purpose has been distorted by crowd-pleasing gimmicks.

Oxford University Press; 320 pages; $30 and £22.99

Buy it at
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Amazon.co.uk

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Partisanship and the Supreme Court

Cross-dressing

Aug 2nd 2001
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Two outstanding lawyers review a controversial decision

AFTER 100m Americans had voted for president last November, the election was finally decided by a conservative majority on the Supreme Court. Alan Dershowitz, an outspoken professor at Harvard Law School and an avowed Gore supporter, charges these judges with partisanship that has "defiled their places in history".

The language is harsh. But the basis for Mr Dershowitz's charge is widely shared among America's lawyers, including conservatives who backed President George Bush. Mr Dershowitz's core point is what he calls the "shoe-on-the-other-foot" test. Would the court have stopped the Florida recount had Mr Gore, not Mr Bush, asked them to? Mr Dershowitz thinks not. This is a serious charge. If he is right, the judges violated a promise made on taking office to "administer justice without respect to persons".

The Supreme Court halted a Florida recount ordered by the state's highest court on the ground that local counting practices would vary, violating the constitutional guarantee of equal protection. This argument, Mr Dershowitz persuasively shows, was not justified by precedent. He is also effective in contrasting points made by the majority in their election decision with previous judgments. His suggested answer to the enduring problem of partisan bias is to select top judges from a short list put together by a bipartisan commission using the "broadest criterion of greatness".

Supreme Injustice: How the High Court Hijacked Election 2000
By Alan M. Dershowitz

Oxford University Press; 275 pages; $25.00

Buy it at
Amazon.com
Amazon.co.uk

Breaking the Deadlock: The 2000 Election, the Constitution, and the Courts
By Richard A. Posner

Princeton University Press; 284 pages; $24.95 and £16.50

Buy it at
Amazon.com
Amazon.co.uk

In "Breaking the Deadlock", Richard Posner, a star of the economics-and-law movement and a free-market liberal, agrees that the Supreme Court's reasoning was abominable. But he defends the judgment itself on the pragmatic ground that a firm and immediate decision was needed to avoid a constitutional crisis. The court might have made its umpire's call and given its full reasons later. But, somewhat contradictorily, he concludes that this course would just have "prolonged the agony". He thinks that, when facing momentous cases, judges are not obliged to follow precedent or legal principle but may act as super-legislators, choosing what in their view is best for the nation.

Both books involve a striking form of legal cross-dressing: their judicial philosophies almost exactly reverse what the left and the right in America once used to say: following precedent and interpreting the constitution strictly was usually how conservatives tried to rein in activist (and progressive) judges. Here legal caution is invoked on behalf of the Democratic candidate, judicial activism in defence of the conservative choice.

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New American fiction

Good at killing

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HAUNTINGLY poignant despite its reserved protagonist and morbid subject matter, “The Master Executioner” follows Oscar Stone, a professional hangman, as he dispenses justice to axe murderers and army deserters—miscreants and ne'er-do-wells with something missing “who should be no more despised for this misfortune than a man with one leg or an infant with its heart on the wrong side. It was Stone's job, once the man was judged and sentenced, to remove him as an inconvenience to both society and himself.” In his 18th western novel, Loren Estleman plumbs the question of what might attract a thoughtful carpenter fresh from the horrors of the American civil war to such a grisly occupation.

The Master Executioner
By Loren D. Estleman

Forge; 270 pages; $23.95.

Buy it at
Amazon.com
Amazon.co.uk

And at a cost, for Stone's calling drives his lovely young wife to flee in revulsion. But Stone is driven to exploit a gift that marries professionalism with mercy. A botched hanging that fails to snap the neck cleanly is cruel and unusual punishment indeed: too short a drop can strangle the prisoner; too long, take his head off.

The reader samples both grim fates in detail, for Mr Estleman has done impeccable homework on the finer points of what Stone would regard as a lost art. Indeed, Stone's idea of real barbarity is the newfangled electric chair, which singes the flesh, shoots flames out the ears, and loosens the bowels to create “an indescribable stench”. More, “there was no more science in the thing than scalding a hog. Any fool could throw a switch.”

Mr Estleman's prose is pithy, his dialogue tangy (“A man needs a wife, and if he don't have that he needs work. God invented liquor for men that didn't have either”). Even walk-ons, many of whom walk right off, thanks to Stone's ministrations, engender a distinctive pathos, though often guilty of harrowing crimes. Mr Estleman skilfully shows that “genre” books are no more implicitly formulaic than literary novels, which follow rough rules as well. “The Master Executioner” is no didactic tract on the death penalty, yet it implicitly questions whether the arrival of civilisation in the American west reduced violence or just made it more orderly. On an intimate personal level, Mr Estleman movingly conveys the brutalising effects of killing for the law, even when you are terribly good at it.

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Bertie Felstead

Aug 2nd 2001
From The Economist print edition

The last known survivor of no-man's-land football died on July 22nd, aged 106

OLD soldiers, they say, never die, they only fade away. Bertie Felstead was an exception. The older he was, the more famous he became. He was over 100 years old, and had long been ensconced in a nursing home in Gloucester, when he was awarded the French Légion d'Honneur by President Jacques Chirac. He was over 105 when he became the oldest man in Britain. And by then he was even more famous as the sole survivor of the spontaneous Christmas truces that occurred on the western front during the first world war. Few wartime events are the subject of so much controversy and myth.

Mr Felstead, a Londoner and at the time a market gardener, volunteered for service in 1915. Later in that same year he took part in the second, and last, of the Christmas truces while stationed near the village of Laventie in northern France. He was then a private in the Royal Welch Fusiliers, the regiment of Robert Graves, the author of one of the most powerful books about that war, “Goodbye to All That”. As Mr Felstead remembered it, the peace overture came on Christmas Eve from enemy lines. Soldiers there sang, in German, the Welsh hymn “Ar Hyd y Nos”. Their choice of hymn was taken as a much-appreciated acknowledgment of the nationality of the regiment opposing them in trenches about 100 metres away, and the Royal Welch Fusiliers responded by singing “Good King Wenceslas”.

After a night of carol singing, Mr Felstead recalled, feelings of goodwill had so swelled up that at dawn Bavarian and British soldiers clambered spontaneously out of their trenches. Shouting such greetings as “Hello Tommy” and “Hello Fritz” they at first shook hands in no-man's-land, and then presented one another with gifts. German beer, sausages and spiked helmets were given, or bartered, in return for bully beef, biscuits and tunic buttons.

A different ball game

The game they played was, Mr Felstead recalled, a rough sort of soccer. “It wasn't a game as such, more a kick-around and a free-for-all. There could have been 50 on each side for all I know. I played because I really liked football. I don't know how long it lasted, probably half an hour.” Then, as another of the Fusiliers remembered it, the fun was brought to a stop by a British sergeant-major ordering his men back into the trenches and gruffly reminding them that they were there “to fight the Huns, not to make friends with them”.

This intervention has helped sustain the vulgar Marxist myth, relayed for instance in the musical “Oh, What a Lovely War!”, that the ordinary soldiers on both sides longed only for a comradely peace and were excited or compelled to fight by jingoistic officers pursuing their class interest. In fact, officers on both sides started several of the Christmas truces in 1915 and of the much wider truces in 1914. After parleying to agree the terms of the ceasefires, most officers mingled with the enemy just as keenly as their men did.

In his account of the truces, Robert Graves explained why. “[My battalion] never allowed itself to have any political feelings about the Germans. A professional soldier's duty was simply to fight whomever the King ordered him to fight...The Christmas 1914 fraternisation, in which the Battalion was among the first to participate, had had the same professional simplicity: no emotional hiatus, this, but a commonplace of military tradition—an exchange of courtesies between officers of opposing armies.”

According to Bruce Bairnsfather, one of the most popular soldier-writers of the first world war, the Tommies were just as hardheaded. There was, he wrote, not an atom of hate on either side during these truces, “and yet, on our side, not for a moment was the will to win the war and the will to beat them relaxed. It was just like the interval between the rounds in a friendly boxing match.”

The many British contemporary accounts of the truces help scotch another myth: that the authorities kept all knowledge of fraternisation from the public at home lest it damage morale. Popular British newspapers and magazines printed photographs and drawings of German and British soldiers celebrating Christmas together in no-man's-land.

It is true, however, that the Christmas truces were not repeated in the later years of the war. By 1916 and 1917 the relentless slaughter of a war of attrition had so deepened enmity on both sides that friendly meetings in no-man's-land were all but unthinkable, even at Christmas.

Mr Felstead was among the doughtiest of the Tommies. He returned home for hospital treatment after being wounded in the battle of the Somme in 1916 but recovered sufficiently to qualify again for service overseas. He was sent to Salonika, where he caught acute malaria and then, after a further spell of recuperation in Blighty, served out the final months of the war in France.

After being demobbed, he led a comparatively dull, respectable life. Only longevity put an end to his obscurity. Writers and journalists clamoured to interview, and celebrate, a participant in a legendary truce whose life eventually stretched across three centuries. He told them that all Europeans, including the British and the Germans, should be friends.

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Overview

Aug 2nd 2001
From The Economist print edition

America is still floundering. The National Association of Purchasing Managers' index of manufacturing activity fell to 43.6 in July from 44.7 a month before. In June, a rebound in the index had sparked premature hopes that America had reached a turning point in the cycle. Meanwhile, preliminary data showed that America's GDP growth slowed to only 0.7% at an annual rate in the second quarter, leaving output only 1.3% higher than a year earlier—its slowest growth since 1991. That number was boosted by an unexpectedly large surge in government spending; without this, GDP would have contracted. Business investment tumbled by 13.6% at an annual rate, the biggest decline since 1982. Despite the bad news the Dow gained slightly over the week on hopes of lower interest rates.

The downbeat news pushed the euro to a two-and-a-half-month high against the dollar this week. However, all is not well in the **euro area**. The Reuters Purchasing Manufacturer's index of factory activity fell to 47.3 in July, down 0.6 points from a month before. The drop in the average index was broadly in line with expectations, but the German index fell by less than expected, while the French and Italian indices fell by more. Unemployment remained steady in the euro area at 8.3% of the labour force in June. French unemployment edged up from its 18-year-low to 8.8%, but Spanish unemployment fell further to 12.8%.

Japan's industrial output contracted for the fourth straight month in June, leaving production 8.7% lower than a year earlier. In the same month, unemployment remained at a record high of 4.9%; consumer prices fell by 0.5% from a year ago. This is squeezing consumers: household spending slumped by a larger than expected 3.3% in the 12 months to June. Meanwhile, anxiety over Junichiro Koizumi's promised structural reforms sent the Nikkei 225 to another 16-year low this week, though it later rebounded.

In **Britain**, manufacturing continues to slide even as retail sales show no signs of slowing. The CBI reported that 57% of retailers reported higher sales than a year ago, while only 13% reported lower sales, giving a positive balance of 44, sharply higher from last month's reading of +30. But the Chartered Institute of Purchasing and Supply index of manufacturing activity fell again in July. Britain's GDP growth slowed to 2.1% in the year to the second quarter, its slowest for two years.

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Output, demand and jobs

Aug 2nd 2001
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	1 year	1 year	latest	year ago
Australia	+ 4.3	+ 2.1 Q1	+ 2.3	+ 3.8	– 1.4 Q1*	+ 0.7 Q2	6.9 Jun	6.3
Austria	+ 1.6	+ 2.2 Q1	+ 2.0	+ 2.3	– 3.6 May	– 1.5 Apr	3.8 Jun	3.7
Belgium	+ 1.8	+ 2.4 Q1	+ 2.3	+ 2.6	– 2.9 May*	– 1.7 Apr	9.9 Jun*	10.1
Britain	+ 1.0	+ 2.1 Q2	+ 2.2	+ 2.8	– 1.9 May	+ 5.6 Jun	4.9 May‡	5.6
Canada	+ 2.5	+ 2.6 Q1†	+ 2.3	+ 3.1	– 0.7 May	+ 4.3 Apr	7.0 Jun	6.6
Denmark	– 4.6	+ 1.0 Q1	+ 1.5	+ 2.1	– 4.0 May	+ 0.2 Apr	5.2 May	5.4
France	+ 2.0	+ 2.7 Q1	+ 2.2	+ 2.5	+ 1.9 May	– 2.5 May	8.8 Jun	9.5
Germany	+ 1.5	+ 1.6 Q1	+ 1.3	+ 2.1	– 1.6 May	– 2.3 May	9.3 Jun	9.6
Italy	+ 2.8	+ 2.4 Q1	+ 2.0	+ 2.3	– 1.9 May	– 1.2 May	9.6 Apr	10.7
Japan	– 0.8	– 0.1 Q1	– 0.3	+ 0.9	– 8.7 Jun	– 1.0 May	4.9 Jun	4.7
Netherlands	+ 0.2	+ 2.0 Q1	+ 2.2	+ 2.9	– 2.0 May	+ 1.5 Mar	1.8 Jun§	2.7
Spain	+ 4.1	+ 3.3 Q1	+ 2.7	+ 2.9	– 0.4 May	na	12.8 Jun	14.2
Sweden	+ 2.4	+ 2.3 Q1	+ 2.3	+ 2.8	– 1.4 Apr	+ 1.9 May	4.2 Jun*	5.1
Switzerland	+ 7.4	+ 2.5 Q1	+ 1.8	+ 2.1	+ 5.1 Q1*	– 0.7 May	1.6 Jun*	1.8
United States	+ 0.7	+ 1.3 Q2	+ 1.6	+ 2.9	– 3.6 Jun	+ 2.5 Apr	4.5 Jun	4.0
Euro area	+ 2.0	+ 2.6 Q1	+ 1.9	+ 2.4	– 0.1 May	+ 0.5 May	8.3 Jun	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 0.4	+ 3.4 Q1	na	na	– 3.0 Jun	+ 4.2 Apr	9.3 Jun*	10.3
Greece	na	+ 2.52000	na	na	– 0.8 Mar*	+ 5.1 Mar	na	na
Iceland	na	+ 3.62000	na	na	+ 2.5 2000	na	1.5 Apr	1.5
Ireland	na	+12.1 Q4	na	na	+14.9 May*	+ 0.7 May	3.7 Jun	4.1
Luxembourg	na	+ 8.52000	na	na	– 1.6 Apr*†	+ 9.1 Jun	2.4 Jun	2.7
New Zealand	+ 0.9	+ 0.4 Q1	na	na	+ 0.9 Q1*	+ 1.7 Q1	5.7 Q1	6.7
Norway	+ 0.9	+ 0.3 Q1	na	na	– 5.9 May*	– 1.8 May	3.7 Q1	3.9
Portugal	– 0.3	+ 2.2 Q1	na	na	+ 3.4 May*	+ 6.4 Apr	4.2 Q1	4.4

*Not seasonally adjusted. †New series. ‡Mar-May; claimant count rate 3.2% in Jun. §Apr-Jun

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Prices and wages

Aug 2nd 2001
From The Economist print edition

% change at annual rate

	Consumer prices* 1 year		Consumer prices* year ago	The Economist poll consumer prices forecast 2001	The Economist poll consumer prices forecast 2002	Producer prices* 1 year		Producer prices* year ago	Wages/earnings 1 year		Wages/earnings year ago
Australia	+ 6.0	Q2	+ 3.2	+ 4.0	+ 2.4	+ 5.6	Q2	+ 7.4	+ 5.6	Q1	+ 2.9
Austria	+ 2.8	Jun	+ 2.7	+ 2.3	+ 1.7	+ 2.9	Jun	+ 3.8	+ 2.7	Jun	+ 2.0
Belgium	+ 2.7	Jul	+ 2.8	+ 2.4	+ 1.9	+ 5.3	May	+ 8.6	+ 2.6	Q2	+ 2.2
Britain	+ 1.9	Jun	+ 3.3	+ 2.1	+ 2.4	+ 0.4	Jun	+ 2.8	+ 4.5	May	+ 4.6
Canada	+ 3.3	Jun	+ 2.9	+ 2.8	+ 2.1	+ 1.7	Jun	+ 5.7	+ 0.5	May	+ 3.2
Denmark	+ 2.3	Jun	+ 3.3	+ 2.4	+ 2.2	+ 3.2	Jun	+ 6.6	+ 3.8	Q1	+ 3.6
France	+ 2.1	Jun	+ 1.7	+ 1.8	+ 1.5	+ 2.3	Jun	+ 6.0	+ 4.3	Q1	+ 5.2
Germany	+ 2.7	Jul	+ 1.9	+ 2.7	+ 1.7	+ 3.1	Jun	+ 5.4	+ 1.8	May*	+ 2.1
Italy	+ 2.9	Jul	+ 2.6	+ 2.7	+ 2.1	+ 2.3	Jun	+ 6.9	+ 2.7	Jun*	+ 1.8
Japan	– 0.5	Jun	– 0.7	– 0.4	– 0.3	+ 0.8	Jun	– 0.6	+ 0.9	Jun	+ 2.8
Netherlands	+ 4.5	Jun	+ 2.7	+ 4.6	+ 2.7	+ 4.3	Jun	+ 8.8	+ 4.3	Jun	+ 3.2
Spain	+ 4.2	Jun	+ 3.4	+ 3.7	+ 2.8	+ 2.4	Jun	+ 5.8	+ 2.2	Q4	+ 2.4
Sweden	+ 2.9	Jun	+ 1.2	+ 2.2	+ 1.8	+ 2.2	Jun	+ 3.7	+ 2.7	May*	+ 1.9
Switzerland	+ 1.4	Jul	+ 1.9	+ 1.3	+ 1.3	+ 0.4	Jun	+ 2.9	+ 1.3	2000	+ 0.3
United States	+ 3.2	Jun	+ 3.7	+ 3.2	+ 2.3	+ 2.5	Jun	+ 4.4	+ 4.2	Jun	+ 3.7
Euro area	+ 3.0	Jun	+ 2.4	+ 2.7	+ 1.9	+ 3.6	May	+ 5.3	+ 2.6	Q1	+ 2.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 3.0	Jun	+ 3.5	na	na	+ 2.4	Jun	+ 8.6	+ 5.0	Q1*	+ 3.5
Greece	+ 3.9	Jun	+ 2.5	na	na	+ 5.1	Apr	+ 7.0	na		na
Iceland	+ 7.0	Jul	+ 5.6	na	na	+ 6.7	Jul	+ 3.6	+ 8.2	Jun	+ 7.6
Ireland	+ 5.3	Jun	+ 5.5	na	na	+ 3.0	Jun	+ 5.5	+ 6.4	Q4*	+ 7.3
Luxembourg	+ 2.9	Jun	+ 3.3	na	na	+ 1.1	May	+ 5.5	+ 7.7	Apr*	– 1.0
New Zealand	+ 3.2	Q2	+ 2.0	na	na	+ 7.8	Q1	+ 4.9	+ 1.8	Q1	+ 1.4
Norway	+ 3.8	Jun	+ 3.3	na	na	+ 3.5	Jun	+ 8.3	+ 4.4	Q1*	+ 4.1
Portugal	+ 4.5	Jun	+ 2.9	na	na	+ 4.2	Jun	+16.2	+ 2.4	Apr*	na

*Not seasonally adjusted.

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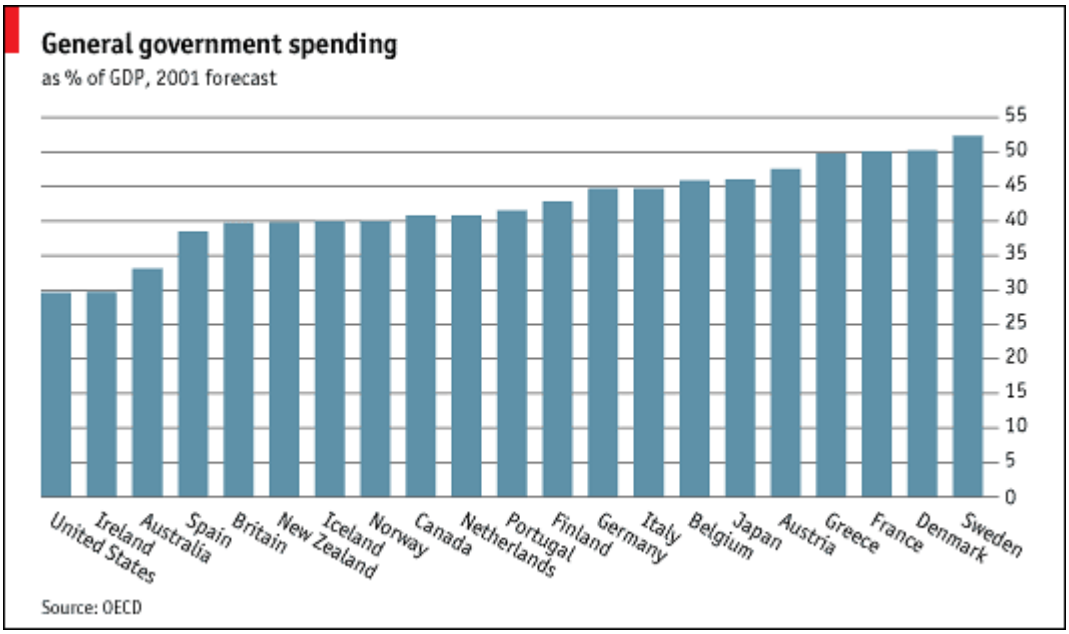
General government spending

Aug 2nd 2001
From The Economist print edition

Sweden has the biggest government among the rich countries, with public spending set to reach 52% of GDP this year. Denmark and France are the only other countries where spending is more than 50% of GDP. Most countries have seen a sharp fall in government spending' share during the past decade. In 1991, for instance, Sweden's was almost 59% of GDP. The exception is Japan where spending has jumped from 38% to 46% of GDP.



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Money and interest rates

Aug 2nd 2001
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Aug 1st 2001)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest ‡	year ago	bonds
Australia	+15.8	+ 7.0	Jun	5.04	6.44	5.35	6.07	6.23	7.51
Britain	+ 6.8	+ 7.5	Jun	5.19	6.13	5.19	4.99	5.21	6.31
Canada	+10.5	+ 6.6	Jun	4.03	5.65	4.62	5.64	5.79	7.25
Denmark	+ 1.2	- 6.9	May	4.80	5.70	4.61	5.11	5.57	7.01
Japan	+ 8.1	+ 3.2	Jun	0.02	0.11	0.06	1.33	1.68	1.46
Sweden	+ 7.2	+ 5.0	Jun	4.29	4.05	4.60	5.17	5.21	5.41
Switzerland	nil	+ 3.6	Jun	3.19	3.44	2.71	3.31	3.90	4.08
United States	+ 1.6	+11.3	Jun	3.54	6.54	3.81	5.03	5.97	6.85
Euro area †	+ 4.2	+ 6.3	Jun	4.43	4.85	4.13	4.81	5.10	5.48

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. ‡ July 31st Benchmarks: US 30-year 5.53%, Japan No.233 1.34%. Central bank rates: US fed funds 3.75%, ECB refinancing 4.50%, BOJ overnight call 0.01%, BOE repo 5.25%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, Warburg Dillon Read, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Aug 2nd 2001
From The Economist print edition

1995=100

	Jul 24th	Jul 31st*	% change on one month	% change on one year
Dollar index				
All items	69.4	69.3	+ 0.9	- 3.5
Food	70.6	70.6	+ 3.9	+ 1.7
Industrials				
All	67.9	67.5	- 3.1	-10.0
Nfa†	67.0	67.7	- 0.7	- 1.3
Metals	68.6	67.3	- 5.1	-16.3
Sterling index				
All items	77.1	76.7	- 0.4	+ 1.6
Euro index				
All items	104.4	104.1	- 2.4	+ 2.1
Yen index				
All items	91.7	92.0	+ 1.2	+10.2
Gold				
$ per oz	268.75	266.15	- 0.8	- 4.2
West Texas Intermediate				
$ per barrel	26.11	26.74	+ 1.6	- 5.6

* Provisional. † Non-food agriculturals.

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Stockmarkets

Aug 2nd 2001
From The Economist print edition

Market indices

		2001		% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
	Aug 1st	high	low				
Australia (All Ordinaries)	3,317.0	3,425.2	3,094.3	+ 1.6	- 3.2	+ 5.1	- 2.5
Austria (ATX)	1,236.6	1,245.8	1,052.2	nil	-28.8	+15.2	+ 7.9
Belgium (Bel 20)	2,945.0	3,030.4	2,591.6	+ 1.0	-20.0	- 2.6	- 8.8
Britain (FTSE 100)	5,546.9	6,334.5	5,275.7	+ 5.1	-20.0	-10.9	-14.6
Canada (Toronto Composite)	7,741.4	9,348.4	7,415.5	+ 1.5	-32.0	-13.3	-15.3
Denmark (KBX)	262.4**	311.5	234.7	+ 4.4	-13.0	- 0.9	- 7.0
France (SBF 250)	3,277.2	3,820.2	3,084.7	+ 6.2	-25.4	-13.1	-18.6
(CAC 40)	5,112.5	5,998.5	4,773.2	+ 7.1	-26.1	-13.7	-19.2
Germany (Xetra DAX)	5,835.2	6,795.1	5,388.0	+ 4.5	-27.6	- 9.3	-15.1
Italy (BCI)	1,610.8	1,948.4	1,555.8	+ 2.8	-26.2	-15.9	-21.3
Japan (Nikkei 225)	11,959.3	14,529.4	11,579.3	+ 0.6	-69.3	-13.2	-20.6
(Topix)	1,206.9	1,441.0	1,162.0	+ 1.5	-58.2	- 6.0	-13.9
Netherlands (AEX)	551.8	642.3	518.3	+ 4.8	-21.3	-13.5	-19.0
Spain (Madrid SE)	832.5	963.9	798.6	+ 4.2	-27.4	- 5.5	-11.5
Sweden (Affarsvarlden Gen)	233.7	293.1	217.2	+ 7.3	-41.6	-15.9	-24.9
Switzerland (Swiss Market)	6,916.4	8,135.4	6,574.0	+ 3.7	-17.8	-15.0	-19.8
United States (DJIA)	10,510.0	11,337.9	9,389.5	+ 1.0	-10.3	- 2.6	- 2.6
(S&P 500)	1,215.9	1,373.7	1,103.3	+ 2.1	-20.4	- 7.9	- 7.9
(Nasdaq Comp)	2,068.4	2,859.2	1,638.8	+ 4.2	-59.0	-16.3	-16.3
Europe (FTSE Eurotop 300)*	1,349.3	1,545.5	1,279.0	+ 5.3	-20.9	-12.0	-17.6
Euro area (FTSE Ebloc 100)*	1,203.4	1,404.1	1,139.8	+ 5.6	-22.4	-13.6	-19.1
World (MSCI)†	1,075.7	1,249.2	1,014.6	+ 2.8	-25.8	na	-11.9
World bond market (Salomon)‡	435.0	447.8	420.6	+ 0.2	- 5.4	na	- 2.0

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms. **New index.

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Trade, exchange rates and budgets

Aug 2nd 2001
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2001	Current account The Economist poll % of GDP, forecast 2002	Exchange rate trade-weighted† Aug 1st	Exchange rate trade-weighted† year ago	Currency units per $ Aug 1st	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2001‡
Australia	− 0.1 Jun	− 12.9 Q1	− 3.0	− 3.0	72.8	77.2	1.94	1.72	2.78	1.71	1.55	0.1
Austria	− 5.6 Apr	− 4.7 May	− 2.2	− 2.0	100.1	99.8	15.7	15.1	22.4	13.8	12.5	-0.6
Belgium	+ 12.1 May	+ 11.2 Mar	+ 4.2	+ 4.5	98.7	98.4	45.9	44.1	65.7	40.3	36.8	0.7
Britain	− 44.0 May	− 19.2 Q1	− 2.1	− 2.4	106.8	106.9	0.70	0.67	–	0.61	0.56	1.2
Canada	+ 48.2 May	+ 22.2 Q1	+ 3.3	+ 2.6	78.4	80.3	1.54	1.48	2.20	1.35	1.23	2.6
Denmark	+ 6.7 May	+ 4.3 May	+ 1.6	+ 1.7	101.9	100.5	8.47	8.16	12.1	7.45	6.79	2.9
France	− 0.2 May	+ 14.0 May	+ 1.7	+ 1.8	101.3	101.1	7.46	7.18	10.7	6.56	5.98	-0.5
Germany	+ 57.4 May	− 17.4 May	− 0.8	− 0.6	98.2	97.8	2.23	2.14	3.19	1.96	1.78	-1.7
Italy	+ 3.3 May	− 6.1 Apr	− 0.3	− 0.1	72.3	72.2	2,203	2,119	3,154	1,936	1,766	-1.3
Japan	+ 95.6 May	+102.3 May	+ 2.2	+ 2.0	135.9	152.3	125	109	179	110	–	-6.3
Netherlands	+ 17.8 May	+ 16.0 Q1	+ 4.1	+ 4.0	97.6	97.2	2.51	2.41	3.59	2.20	2.01	1.3
Spain	− 38.2 May	− 15.9 Apr	− 2.8	− 2.7	74.0	73.8	189	182	271	166	152	nil
Sweden	+ 12.8 Jun	+ 5.7 May	+ 2.1	+ 2.3	74.9	82.4	10.57	9.26	15.1	9.29	8.47	3.6
Switzerland	+ 0.1 Jun	+ 28.3 Q1	+11.5	+11.5	109.0	106.0	1.72	1.69	2.46	1.51	1.38	na
United States	−455.5 May	−449.3 Q1	− 4.1	− 3.9	120.0	112.0	–	–	1.43	0.88	0.80	2.1
Euro area	− 1.2 May	− 30.6 May	− 0.3	− 0.1	78.1	78.4	1.14	1.09	1.63	–	0.91	-0.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 14.0 May	+ 8.9 May	na	na	78.0	76.8	6.91	6.51	9.89	6.07	5.54	5.3
Greece	− 7.5 Jan	− 7.7 Jan	na	na	57.3	57.7	396	369	567	348	318	nil
Iceland	− 0.4 Jun	− 0.9 Q1	na	na	na	na	103	79.7	147	90.5	82.6	2.4
Ireland	+ 28.3 May	− 1.3 Q1	na	na	86.8	86.6	0.92	0.86	1.31	0.81	0.73	4.5
Luxembourg	− 2.4 Apr	+ 1.2 Q1	na	na	98.7	98.4	46.9	44.1	67.2	41.2	37.6	3.6
New Zealand	− 0.0 Jun	− 2.3 Q1	na	na	79.9	81.0	2.41	2.20	3.45	2.12	1.93	1.0
Norway	+ 27.8 Jun	+ 25.6 May	na	na	95.5	91.7	9.19	8.96	13.2	8.08	7.36	15.3
Portugal	− 13.9 Apr	− 9.9 Apr	na	na	89.1	88.8	233	219	334	205	187	-1.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

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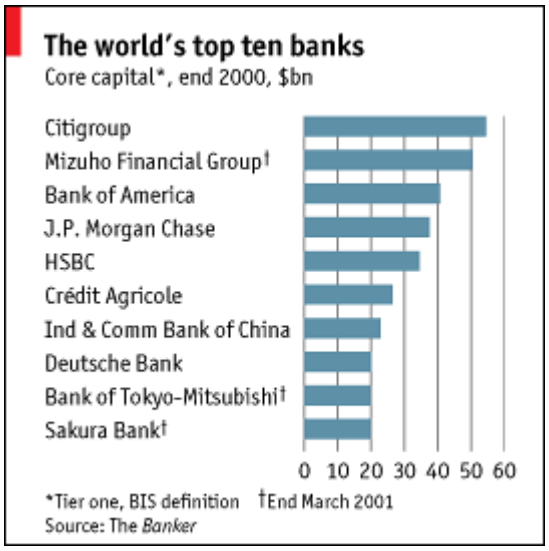
The world's top ten banks

Aug 2nd 2001
From The Economist print edition

Mergers continue to rearrange the *Banker*'s list of the world's biggest banks. Citigroup is still the largest, with core capital of $55 billion. But a new Japanese conglomerate, Mizuho Financial, has nudged Bank of America out of second place.



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Overview

Aug 2nd 2001
From The Economist print edition

Investors became gloomier about Argentina's chances of avoiding default on its $128 billion debt. Although the Senate passed the government's austerity plan, international reserves fell sharply as tax receipts were lower in July. The stockmarket fell by 7% over the week.

The industrial downturn in America and Europe took a further toll on Asian economies. In South Korea, industrial output fell by 2.7% in the year to June, the first decline for nearly three years. In Singapore, industrial production fell by 16.1% in the year to June. However, stockmarkets rose over the week in both countries.

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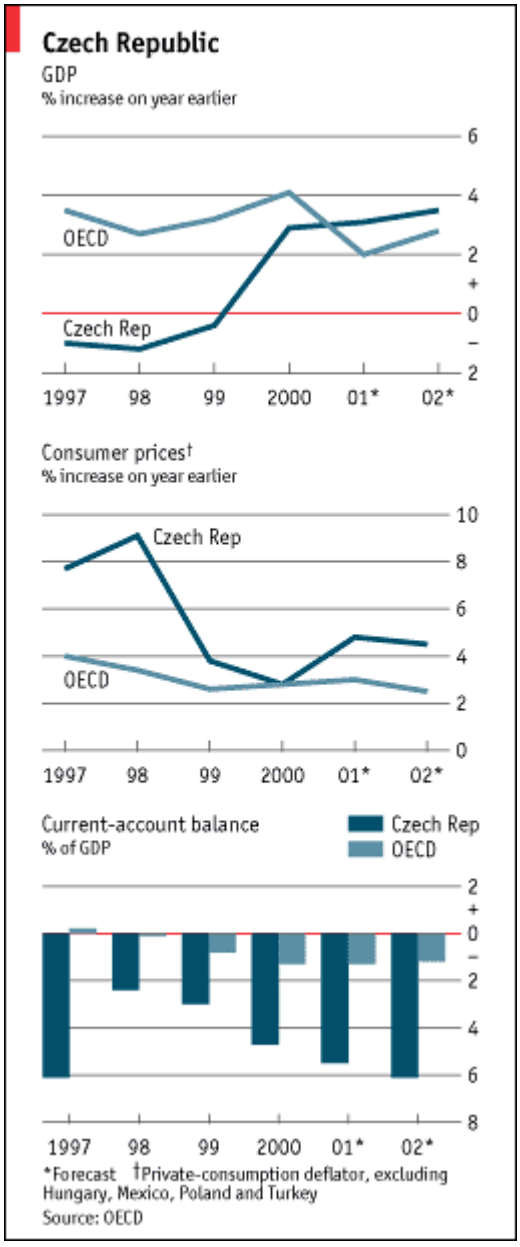
Czech Republic

Aug 2nd 2001
From The Economist print edition

Structural reforms during the recession of 1997-99 aided a strong recovery in 2000 and early 2001, according to the OECD's latest survey of the Czech Republic. The new inflation-targeting regime has also been quite successful. But a large current-account deficit combined with a loose fiscal stance pose a challenge to monetary policy in stabilising domestic demand in the medium term.



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Economy

Aug 2nd 2001
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.8	Q2	+10.1	Jun	+ 1.4	Jun	+19.9	Jun	+20.5	2000	180.2	Apr
Hong Kong	+ 2.5	Q1	– 0.1	Q1	– 1.1	Jun	–11.9	May	+ 8.8	Q1	114.1	Jun
India	+ 5.7	Q3	+ 1.9	May	+ 2.5	May	– 5.4	May	– 2.3	Q1	40.1	May
Indonesia	+ 4.0	Q1	+ 4.5	Q4	+13.0	Jul	+24.8	Jun	+ 5.5	Q3	22.1	Apr
Malaysia	+ 3.2	Q1	– 3.7	May	+ 1.5	Jun	+15.3	Jun	+ 8.4	Q4	25.6	May
Philippines	+ 2.5	Q1	+ 2.0	May	+ 6.7	Jun	+ 6.1	May	+ 8.5	Apr	12.5	Apr
Singapore	– 0.8	Q2	–16.1	Jun	+ 1.2	Jun	+ 7.7	Jun	+21.8	Q1	76.7	Apr
South Korea	+ 3.7	Q1	– 2.7	Jun	+ 5.0	Jul	+14.0	Jul	+13.8	Jun	94.3	Jun
Taiwan	+ 1.1	Q1	–11.3	Jun	– 0.2	Jun	+12.2	Jun	+12.0	Q1	109.1	Jun
Thailand	+ 1.8	Q1	+ 1.7	Jun	+ 2.2	Jul	+ 3.1	Jun	+ 6.9	Jun	31.0	Jun
Argentina	– 2.1	Q1	– 2.9	Jun	– 0.3	Jun	+ 1.7	May	– 9.0	Q1	21.1	Jun
Brazil	+ 4.1	Q1	+ 4.2	May	+ 8.1	Jun	– 1.6	Jun	–26.8	Jun	37.3	Jun
Chile	+ 3.3	Q1	+ 6.3	Jun	+ 3.6	Jun	+ 1.7	Jun	– 1.4	Q1	14.4	May
Colombia	+ 1.7	Q1	+ 2.2	May	+ 7.9	Jun	+ 1.6	Apr	– 0.7	Q1	9.3	Jun
Mexico	+ 1.9	Q1	– 3.4	May	+ 6.6	Jun	– 9.5	Jun	–17.8	Q1	40.7	Jun
Peru	– 0.4	May	+ 1.3	May	+ 2.5	Jun	– 0.3	May	– 1.7	Q1	8.3	May
Venezuela	+ 3.5	Q1	na		+12.5	Jun	+17.2	Dec	+12.5	Q1	10.9	May
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.2	May	–10.4	Q4	– 0.8	Q4	12.9	Mar
Israel	+ 1.8	Q1	+ 0.3	Apr	+ 0.7	Jun	– 7.4	Jun	– 1.4	Q4	22.8	Jun
South Africa	+ 2.7	Q1	+ 1.7	May	+ 6.3	Jun	+ 4.1	Jun	+ 0.1	Q1	6.1	Jun
Turkey	– 1.9	Q1	– 9.7	May	+56.1	Jun	–22.8	May	– 5.4	May	16.6	Jun
Czech Republic	+ 3.8	Q1	+ 6.9	May	+ 5.5	Jun	– 3.4	Jun	– 2.7	Q1	12.7	Jun
Hungary	+ 4.4	Q1	+ 8.4	May	+10.5	Jun	– 2.4	May	– 1.8	May	11.5	Jun
Poland	+ 2.3	Q1	– 4.8	Jun	+ 6.2	Jun	–10.1	Jun	– 7.2	Jun	26.2	Jun
Russia	+ 4.9	Q1	+ 3.7	Jun	+23.7	Jun	+59.7	May	+45.9	Q1	29.8	May
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 5.6	2000†	–12.9	Dec	+ 3.6	May	– 1.5	Jun	– 1.1	2000†	1.2	Apr
Saudi Arabia	+ 4.5	2000‡	na		+ 0.1	Apr	+50.9	2000	+15.6	2000	16.7	Apr

*Excluding gold, except Singapore; IMF definition. ‡ Economist Intelligence Unit estimate. †Year ending June.

Text refers only to the first 25 countries listed

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Financial Markets

Aug 2nd 2001
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 1st		Dec 31st 2000	
	Aug 1st	year ago	Aug 1st	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.9	na	2,076.5	-5.9	-5.3	-5.3
Hong Kong	7.80	7.80	11.2	3.60	12,478.7	+2.2	-17.3	-17.3
India	47.1	45.3	67.5	7.08	3,284.2	-0.5	-17.3	-18.1
Indonesia	9,625	8,810	13,782	17.32	443.2	-1.0	+6.5	+7.0
Malaysia	3.80	3.80	5.44	3.30	663.0	+3.0	-2.5	-2.5
Philippines	53.8	44.8	77.0	10.50	1,333.7	-2.4	-10.8	-17.0
Singapore	1.80	1.73	2.58	2.48	1,684.8	+3.2	-12.6	-16.0
South Korea	1,292	1,116	1,850	5.13	562.8	+7.0	+11.5	+9.2
Taiwan	34.7	31.1	49.7	3.90	4,354.5	+5.3	-8.2	-12.5
Thailand	45.7	40.8	65.5	3.25	300.5	-2.5	+11.6	+5.9
Argentina	1.00	1.00	1.43	20.00	307.1	-7.0	-26.4	-26.4
Brazil	2.49	1.79	3.57	18.99	13,743.1	-1.5	-11.9	-31.1
Chile	676	550	968	4.00*	5,462.1	+0.6	+12.2	-4.8
Colombia	2,293	2,172	3,284	12.76	983.0	-0.5	na	na
Mexico	9.19	9.35	13.2	8.34	6,573.1	+2.5	+16.3	+21.6
Peru	3.49	3.48	5.0	8.59	1,337.6	+2.6	+10.7	+11.8
Venezuela	727	688	1,041	12.29	7,474.0	-1.5	+10.0	+5.9
Egypt	3.95	3.49	5.65	9.01	5,249.0	-6.5	-31.5	-32.5
Israel	4.21	4.08	6.03	4.68	435.8	+1.6	-11.9	-15.4
South Africa	8.25	7.01	11.8	9.65	8,710.2	+2.4	+4.6	-4.0
Turkey	1,340,000	639,495	1,918,746	66.00	10,211.4	+7.1	+8.2	-45.9
Czech Republic	38.6	38.7	55.3	5.49	374.4	-1.9	-21.8	-23.8
Hungary	282	285	404	11.00	6,612.7	+1.9	-15.8	-15.7
Poland	4.26	4.38	6.10	15.55	13,157.9	+2.8	-26.3	-28.5
Russia	29.3	27.8	42.0	25.00	195.1†	-1.6	+39.4	+36.1
EMF (MSCI)‡	1.00	1.00	1.43	na	303.4	+2.6	na	-9.1
EMBI+§	1.00	1.00	1.43	na	196.8	-3.3	na	-2.5

*Inflation adjusted. †In $ terms. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus.

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